The domestic politics of crisis management
a societal approach to government preference formation in the financial crisis

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Contents

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List of abbreviations:

5SM – Five Star Movement

ADEDY – Civil Servants' Confederation

ANEL – Independent Greeks

ASPI - Assicurazione Sociale per l'Impiego

CGIL – Italian General Confederation of Workers

CISL - Italian Confederation of Trade Unions

DP – Democratic Party

ECB – European Central Bank

EMU – European Monetary Union

EU – European Union

GDP – Gross Domestic Product

GENOP-DEH – Greece's Public Power Company

GIIPS – Greece, Ireland, Italy, Portugal Spain

GSEE – General Confederation of Greek Workers

ILO – International Labour Organization

IME-GSEVEE - The Small Enterprises' Institute of the Hellenic Confederation of Professionals, Craftsmen and Merchants

LMP – Labour Market Policy

ND -New Democratic

OCA – Optimum Currency Area

PASOK - Panhellenic Socialist Movement

PD – Democratic Party

RULC – Real Unit Labour Cost

SEV – Hellenic Federation of Enterprises

STW – Short-term work

SYRIZA - Coalition of the Radical Left

UIL – Italian Labour Union

ULC – Unit Labour Cost

1.1 Introduction

The issue of Europe has become highly salient in the domestic political arena. The growing phenomenon of politicization is now recognized as a major obstacle for European integration and domestic policy-making (Braun et al. 2016: 571), and has become prevalent in academia primarily through the influential advances of postfunctionalism (Hooghe and Marks 2009). The isomorphic issues of the EU, in the form of economic and social policies, have been realized by citizens; as people are now acutely aware of the socioeconomic implications that European policies have on individual welfare. Consequently, the issue of Europe now dominates domestic party conflicts, and ensures that democratically accountable governments are even more responsive to the growing societal pressure surrounding EU policies.

It is evident that the crisis has been a catalyst for the above developments, indeed not only the crisis but perhaps more importantly the strategy chosen to address it. The misdiagnosis of the crisis somewhat dictated the remedy, with struggling debtor nations begin subject to stringent austerity measures that sought to consolidate finances of perceived profligate states (Storm and Naastepad 2015). The abandonment of Keynisian policies towards a monetarist orientation has been empowered by the crisis and resulted in an unchecked, self-sustained power for decision-makers that have a scorn for representative institutions, to the point where the EU has constrained a democratic dialect between government and opposition (Della Porta 2016: 17-19). From more cynical commentators, the crisis provided the necessary impetus to enact extensive neoliberal reforms and overcome a traditional reluctance to change (e.g. Bozkurt 2013). It is true, though, that the overbearing emphasis of reforms by the Troika has been on labour market and social policy, with a programme of fiscal retrenchment and labour market flexibility being prescribed that inherently challenges domestic considerations due to the redistributive implications (Streeck 2014). Greece has been forced to adopt a process of internal devaluation that has been strongly argued to be a direct attempt to transform institutional collective bargaining mechanisms and flexibilize markets to embed neoliberalism: since there has been a 'radical assault on the institutions of Greek collective bargaining and a weakening of employment protection legislation. The goal is to drive down labour costs and strengthen the power of capital vis-à-vis labour' (Kennedy 2016: 267). It has been this explicit and direct assault on national institutions that challenges individual socioeconomic welfare and ensured domestic political actors are firmly engaged with European policy, underlining the rapid growth of politicization.

It has been this dramatic rise in politicization in the crisis countries that has impacted government preference formation. Politicization brings the executive decision-making of the EU to mainstream public debate and ensures it becomes subject to scrutiny, controversy, and party conflict (Statham and Trenz 2012). This is also consistent with earlier observations of the fact that economic crises are major drivers of politicization and political realignment (Gourevitch 1989); while it is also Gourevitch that notes the importance of domestic political considerations for policy-making during a crisis. This crisis certainly represents a new and powerful episode to generate politicization of Europe, one that can bring European policy and issues into mainstream public national debates: 'The Eurozone crisis has an extraordinarily high potential for generating a deep and on-going politicization of the EU within national domestic politics across the region' (Statham and Trenz 2012: 18).

While these nations have undertaken substantial measures over the past decade, a striking feature of the crisis has been a notable divergence in the paths and a lack of implementation of measures (Monastiriotis 2013; Vasilopoulou et al. 2013). Greece certainly has been subject to the demands of the Troika and financial markets; but has repeatedly failed to fulfil expectations. It is argued that domestic political factors have been crucial to this development, as the crisis intensified societal pressure given the consequences of European policy during this period and the impact of the redistribution of costs and benefits, a feature underlining the growth of politicization vis-à-vis the EU. At the same time, these nations continued to display characteristics that had plagued their past, namely a populist, clientelist, short-term vision to policy-making.

The EU crisis governance response recognizes the challenge of politicization with active attempts to depoliticize EU policy. The emergency response isolated decision-making at a supranational level and resulted in crisis-induced reforms; but, the logic of democratic functionalism highlights that this process leads to a (re) politicization of EU crisis governance (Statham and Trenz 2015). Indeed, the shock of the crisis necessitated significant institutional governance change at a supranational level, with a centralization of power around the ECB (Chang 2015), resulting in a dominance approach to intergovernmental relations (Dehousse 2012). As Craig (2014: 36 and 37) observed:

'the Euro crisis has…impacted on the EU inter-institutional division of political power. It would be tempting to conclude that it has had a predictably Schmittian effect, with power being concentrated to an ever-greater extent in the EU executive, the rationale being that only it can respond with sufficient speed to the profound problems generated by the Euro crisis.'

This growing unilateral approach has only served to further disintegrate relations and broaden the Northern-Southern split, intensifying domestic considerations and increasing pressure on national executives to defend national social rights; but the process was most certainly increased by the failing remedy adopted. This, in turn, generated questions over the democratic legitimacy of Europe that challenges the role of the EU in domestic affairs and puts greater constraints on domestic governments in cooperating with their demands: 'From a public sphere perspective, the EU's politicization and democratization are interlinked in a way that public contestations pose a challenge to executive decision making, raise democratic standards and trigger processes of public opinion and will formation' (Statham and Trenz 2015: 303).

It is argued that Europe has experienced a postfunctionalist moment during the crisis (Hutter and Kerscher 2014). A process of significant politicization, mass widespread protests to European policy, the clear directly attributable negative impact on the welfare of citizens of European policy, and high levels of government instability, all contributed to a growing challenge for European integration. Politicization has permeated electoral campaigns and referendums, as there has been a notable shift from a "permissive consensus" to a "constraining dissensus". This indicates the transformation of political conflict in Europe, as the tangible impact of European integration on economic, cultural, and political levels has been realized and has changed domestic politics (Green-Pedersen 2011; Van Der Eijk and Franklin 2004). This work adopts a postfunctionalist perspective that considers these factors as paramount, and indicators of the prevalence of domestic political factors in crisis management strategies.

As such, based on this premise this paper considers why these nations have adopted distinctly different paths; assessing what factors have been influential in the decision-making processes of each nation-state. Given that both countries have been subject to the same supranational pressure and direction, the work presents a societal approach to decision-making that accounts for domestic political factors in government preference formation. As clearly outlined by Zuleeg (2016): 'each government is politically accountable to its own citizens, creating insufficient incentives to act cooperatively at EU level.'

One of the key findings of this paper argues that a lack of ownership has been highly important, particularly for the case of Greece, a characteristic that is proving disastrous for other members of the monetary union. This also provides a key validation for the “harsh” treatment of Greece, in attempting to prevent the negative spillovers of bankruptcy. The crisis has certainly highlighted the need for both ownership, and politically sustainable reforms (Begg et al. 2015), as the fact is ‘agreed reforms were either not implemented, or not implemented on a sufficient scale’ (Blanchard 2015). Structural reforms are pre-requisite to long-term growth, and thus spending more was not the answer to Greece’s problems without adopting much needed growth-enhancing reforms (Phelps 2015). Ironically, it is argued that the process of crisis management has contributed to the lack of ownership in Greece. The most important characteristics for a paradigm shift is a coherent, strong, and persuasive domestic political authority steering the reform; yet, by adopting a top-down imposition of measures, the EU acted as a catalyst to blame-shifting strategies of political parties and limited the engagement of domestic political authorities and experts; whilst, also exacerbating societal cleavages and negative attitudes to both the state and supranational authority, raising the cost of implementation. This clearly links back to the former point, in that severe reforms, imposed in a top-down hierarchy, are ultimately counterproductive and demonstrate the importance of domestic political factors.

The core argument of this paper is that domestic considerations should play a crucial role in the path taken since the crisis. This understanding follows the seminal work of Gourevitch *Politics in Hard Times* (1986), which anticipates that when faced with a common shock countries would respond in different ways and that various features of the policy response may be attributed to societal interest and domestic political processes. The novel contribution focuses on why labour market flexibility has been the focal point of reform in the periphery, largely despite societal resistance from both the unions and public opinion. It is clear, however, that powerful employer relations have had a fundamental role in this process, whilst it also favours international capital interests. At the same time, there has been a fundamental lack of structural reform in other areas that are a prerequisite for long-run growth: predominantly because such reforms have a high political cost and cause conflict with entrenched interest groups or vulnerable social groups (Bongart and Torres 2015: 53).

The key supposition is that governments in democratic political systems both represent and are held accountable by dominant societal influences, which may range from specific lobby groups or associations, to general voter attitudes. Government positions are believed to express domestic preferences originating from these societal influences in reference to policy creation or prior to international strategy development. The underlying implication is that 'states do not automatically maximize fixed, homogenous conceptions of security, sovereignty, or wealth per se, as realists and institutionalists tend to assume. Instead (…) they pursue particular interpretations and combinations of security, welfare, and sovereignty preferred by powerful domestic groups' (Moravcsik 1997: 519). This premise is at least potentially exacerbated in both Greece and Italy that are understood to be clientelist systems, while further still, are intensified in a crisis situation whereby socioeconomic interests are threatened and the redistributive implications of policy decisions come to the fore. In such circumstances, the influence of domestic considerations should be observable through policy and thus the direction of crisis management should be indicative of the most powerful influences in the political economy.

In utilising the framework developed by Schirm (2009, 2011, 2013) the focus is on the underlying societal influences of policy-making, allowing for a more effective understanding both how and why convergence on policy was reached from differing domestic preferences. The thesis considers the domestic political considerations of the policy decisions made by the respective governments and considers the domestic political impact of the crisis. The core argument is that divergence and/or convergence of government positions towards fiscal policy and coordination are strongly influenced by domestic ideas and interests.

The inspiration for this research has been drawn both from the history of fiscal policy in the EMU and its political economic background, together with the literature, or lacking thereof, on fiscal coordination – particularly through the lens of a domestic political perception. Recent scholarship has signified the importance of domestic political factors in shaping policy decisions through the crisis and can help to provide fruitful explanations for government preference formation and institutional divergence (Copelovitch et al. 2016). Through utilising a domestic politics approach, it understands policy-making and implementation as a direct consequence of domestic ideas and interests. It applies this logic to present an understanding of how both Greece and Italy managed to reach the situation of crisis in 2010, and subsequently why these countries have diverged since, in some respects failing to make necessary reforms; but also, why they have taken distinctly different approaches to fiscal consolidation, particularly with regards to labour market reform.

It argues that the redistributive nature of crisis management policies has engaged domestic considerations and impacted the subsequent course of policy, which is why there must be a domestic politics explanation in order to understand government preference formation (Schirm 2013). Domestic political explanations of the crisis have been lacking, predominantly with reference to fiscal coordination (Schirm 2013; Howell 2013; Vilpisauskas 2013); yet, the growing recognition of politicization and prominence of postfunctionalist theory has certainly shifted attention to the role of domestic politics. For example, Howell (2013) identified that explanations of the post-crisis responses that 'take international and political aspects of the crisis events, decisions, and polices have in general been lacking' (Ibid: 2); but also, that despite extensive and important economic analysis, it fails to account for important political factors (Copelovitch et al. 2014). Similarly, Vilpisauskas (2013) extends this perception, arguing that 'much less has been written about the actual direction that EU integration has been taking since the start of the crisis, its defining characteristics and limit to different scenarios proposed by economists and policy-makers on both EU and national levels' (Vilpisauskas 2013: 362). This, again, is largely since fiscal policy in EMU remains largely dominated by economists (E.g. Allsopp and Artis 2003; Annett et al. 2005).

Yet, in spite of the lacking attention to domestic political factors, the response to the crisis symbolises the domestic tensions that exist and highlights the current problems in attempting to effectively coordinate policy. It has been argued that with the lack of a financial treasury or centralised political government, the European response to the sovereign debt crisis is an 'experiment in crisis management' (Regan 2013: 1). No level of the multi-level polity has the necessary tools to effectively solve the crisis, with monetary policy remaining supranational across many varied fiscal, welfare state and labour market regimes. There is considerable conflict within Europe as to who should bear the burden of adjustment, which can be simplified as a tension between creditor and debtor nations. Economic literature suggests that if countries undertake internal devaluation, impose structure reforms and implement technocratic fiscal policies, then the crisis can be overcome (Buti and Carnot 2012). Even from an economic perspective this is highly controversial (e.g. Stockhammer 2011; Onaran and Galanis 2013), but more importantly it ignores the fundamental truth that this is a political crisis, which must be stressed due to the domestic political considerations. Europe lacks the strategic capacity to coordinate an effective response that distributes the burden of adjustment fairly across both creditor and debtor nations. In doing so, policy decisions must be undertaken directly by affected states, which leaves these processes subject to strained domestic political influences.

This reiterates the point that the crisis is, at its core, a political crisis. The understanding and analysis of events has been heavily dominated by economists, which highlights the agreed structural deficiencies of the Eurozone and limited institutional framework to handle a crisis (Baldwin et al. 2015; De Grauwe 2013; Lane 2012; Pisani-Ferry 2012); but, these suggestions and the wider understanding often does not account for the political ramifications of the crisis, and notably what is politically feasible for its resolution (Copelovitch et al. 2016). What has emerged is a clear 'transnational cleavage' (Hooghe and Marks 2017) that threatens the very heart of European integration and challenges any supranational attempts at crisis resolution (Beramendi et al. 2015, Bornschier and Kriesi 2012, Golder 2016, Höglinger 2016, Hooghe et al. 2002, Kriesi et al. 2006, 2008, 2012, Teney et al. 2013). Ultimately, recent scholarship has noted the importance of the domestic level and the role of mass publics and public opinion in shaping policy responses to the crisis (Copelovitch et al. 2016); and thus, this work concentrates on the rising trend of politicization and domestic politics, that seeks to understand the wider economic and political constraints that national states governments face in crisis resolution.

1.2 Research Questions

These problems represent a theoretical puzzle. This thesis argues that to resolve this question requires an approach that substantially shifts the focus away from earlier means of studying policy making, to one that appreciates these modern political developments. It proposes a theory based on the socio-political context of policy decisions through returning domestic politics to the fore. It explains the failure to adhere to agreed rules by utilising a society-centred approach based on the core variables of ideas and interests; whereas existing literature on fiscal performances predominantly focusses on the institutional environment of fiscal policy making.

The heart of the work will evaluate the crisis management of Greece and Italy in order to assess the identified variables in government preference formation. In doing so, the work seeks to address the problem of why both these nations have struggled to fulfil the obligations placed upon them in the period following the financial crisis: with Greece being critiqued for not adhering strictly to successive Memoranda's; while, Italy has equally been highlighted as lacking fundamental reforms. It should be noted that these processes have diverged within themselves, with Italy adopting more extensive labour market reform when compared to Greece. It is argued that domestic political factors have been integral to this critical divergence.

To do so this work has been dictated by five key hypotheses.

H1: That there has been a continued politicization of public opinion vis-à-vis the European Union.

H2: The perception of crisis management in the public sphere is crucial, whereby a perception of ineffective policies and a supranational imposition has contributed to the deterioration of socio-economic fundamentals, which has been a catalyst for declining public sentiment.

H3: This deterioration of public opinion has been matched by vehement opposition from domestic interests – namely the trade unions. Thus, societal interests and ideas have converged during the crisis, forming a prominent obstacle to effective reform.

H4: Extensive focus on labour market reform has played a defining role in societal considerations. Both the unions and public opinion are expected to oppose measures, while the employers should favour reform.

H5: Consequently, it is hypothesised that government preference formation has been consistent with the positions taken by domestic interests and ideas, and that both policy decisions and their subsequent implementation have been impacted by domestic politics.

In adopting a postfunctionalist perspective and domestic politics framework, the research seeks to evaluate the extent and source of politicization in order to not only understand how extensive this has been, but also in what areas has there been the most conflict for the public. This is illustrated in H1 and H2, whereby the work shall quantitatively analyse the extent of politicization and in what specific areas the public has attributed blame to the EU. Further, it is not just the public that have a role in government preference formation but also domestic interests, in the form of trade unions and employers' associations. These are critical actors in Greece and Italy, given the clientelist nature of their systems that ensure inherent patronage links between the government and affiliated actors. Thus, H3 is concerned with assessing the focus of their agenda and how that should be aligned with that of the public's opposition that exacerbates societal pressure on the state. H4 considers the heart of societal conflict with the EU. The major focus of supranational pressure throughout the EMU, but particularly during the crisis, has been labour market reform, with the EU favouring liberalization. It is suggested that this conflicts with the demands and wishes of the electorate and the domestic interests, which should see the greatest level of politicization focussed on these types of reforms. It is also important to qualify that this work will also focus on labour market issues predominantly. There is an understanding, particularly in Greece, that wider reform efforts have also played a centre role in recent years, however, for the sake of comparison and simplicity, labour market considerations have been selected. Finally, the heart of the research concentrates on how these domestic political influences may have impacted government preference formation, particularly illustrates through the lack of implementation of certain measures, or the targeted approach to implementing reform that may disproportionately affect certain sectors of the economy.

The chapter shall proceed with a methodology overview, by presenting an analysis of the methods utilized in this paper. It discusses the reason why a mixed-methods approach is particularly applicable, as there is substantial use of both quantitative and qualitative tools but at the same time, the challenges of the research are reviewed. Following this, the theoretical framework of the work is discussed. The work evaluates the significance of politicization and assesses the postfunctionalist perspective that the work considers developments from, that stresses the importance of domestic political considerations in understanding current developments for European policy and integration. Following this, an overview of the intergovernmental setting of the EU is undertaken. This is necessary to provide a full context to policy-making and better appreciate the relative impact of domestic considerations, as it outlines why states are obliged to follow a path of integration given the transnational interdependence of the EMU and the growing supranational capacity of the EU. The chapter then considers the agenda of labour market reform that has been pursued, explaining the sources of this focus and what the outcome of this strategy has been on the affected states. Finally, the work reviews the theoretical framework of Schirm that will formalize the structure for analysis, which considers domestic interests and ideas the key variables in government preference formation.

1.3 Methodology

The introductory chapter of this work is aimed at specifying the theoretical conundrum and placing it into the context of past research on fiscal policy making. This work follows Schirm (2013) in utilising a societal approach to government preferences formation, which focuses on the predominant role of ideas and interests as having an interdependent relationship for the formation of domestic preferences. Schirm's framework has developed from an eclectic mix of various theories but remains firmly an institutionalist perspective.

As Frieden and Lake highlight, domestic societal approaches share with domestic institutionalism a focus on developments within states and emphasise economic and socio-political actors as opposed to political leaders (Frieden and Lake 2002: 9). The perspective stresses domestic socioeconomic pressures and accordingly, that national policy is generated by the demands of individuals, firms, and groups as opposed to the strict actions of policymakers. The approach recognises and important role for ideas in political economy and the profound effect on interests that embedded ideas may have.

The framework dictates that a vigorous empirical operationalization of all variables is necessary to ensure both an effective analysis and to appreciate different conditions under which each variable will dominate. Consequently, this work will use a classical triangulation, this methodological triangulation will predominantly provide a qualitative assessment, however will utilise both qualitative and quantitative data collection methods and analysis in studying the research questions (Greene and Caracelli 1997; Thurmond 2001).

To operationalise the various variables, the work will utilise a combination of elite interviews, document analysis, journal analysis, and public surveys. In utilising such a methodology, the work hopes to overcome the problem much of social science research suffers in using a single research method. The purpose of this approach is to enhance confidence in the findings, further it also follows Schirm's requirement for a substantial empirical investigation in the operationalization process.

1.4 My Methods

Whilst there are many potential methods that might have a place in the research methodology, this work is utilising a clear triangulation of qualitative and quantitative methods. Firstly, Miles and Huberman outline the usefulness of qualitative methods:

'They are a source of well-grounded, rich descriptions and explanation of processes in identifiable local contexts. With qualitative data one can preserve chronological flow, see precisely which events led to which consequences, and derive fruitful explanations. Then, too, good qualitative data are more likely to lead to serendipitous findings and to new integrations; they help researchers to get beyond initial conceptions and to generate or revise conceptual frameworks' (1994: 1).

Researchers engaging in a qualitative study observe, describe, interpret, and analyse the way people experience, act, or think about themselves of the world around them. Analysis can be seen as a 'close engagement with one's [data], and the illumination of their meaning and significant through insightful and technically sophisticated work' (Antaki et al. 2003: 30).

In addition, there is a requirement for quantitative analysis within the operationalization process. On a basic level, quantitative research involves utilizing empirical methods and empirical statements (Cohen 1980), but in particular for this research this involves providing statistical verification and an objective foundation through `explaining phenomena by collecting numerical data that are analysed using mathematically based methods' (Creswell 1994). Quantitative analysis ensures credible and concrete substantiation for the research and aids in providing tangible insights into politicization, which are certainly more relevant than just qualitative evaluation. Using both paradigms in the same study has caused some debate in academia, given that both paradigms differ epistemologically and ontologically (Hunt 1991). However, this type of triangulation aims to reveal the complementarity, convergence and dissonance amongst findings (Erzerberger and Prein 1997). Hinds argues that the combination of qualitative and quantitative methods 'increases the ability to rule out rival explanations of observed change and reduces scepticism of change-related findings' (Hinds 1989: 442). Thus, consequently, triangulation offers the researcher the benefits to reap the rewards of both qualitative and quantitative methods, while allowing the researcher to neutralize the flaws of methods to be triangulated towards increasing the credibility of scientific knowledge by improving the consistency of the research and generalizability through combining both quantitative and qualitative methods (Hussein 2009: 9).

The following sections will outline the methods used during the research process, highlighting both their applicability to the study and the implications they might have on the analysis. A more complete analysis is undertaken in the theoretical chapter where a thorough investigation of the variables is presented and also as to how exactly the work will operationalise the variables within the framework. Further, the theoretical chapter will outline the methodology behind the decision to choose Greece and Italy as subjects of the study. Presented here are the decisions behind the chosen methodology.

1.41 The Comparative Method

The comparative method utilises systematic analysis of a small number of cases in order to test theories related to significant outcomes within such cases. It has been claimed that the comparative method is nothing but an imperfect substitute for statistical methodology. (Lijphart 1971; Smelser 1973; Skocpol and Somers 1980). This argument is founded on the same logic that is central to both methodologies, however it is claimed that the number of cases in the comparative method is too small to allow for statistical analysis. This, however, overstates the benefits of statistical analysis; since large-n analyses that employ a vigorous correlational logic, cases are reduced to mere variables – ignoring their identity as individual phenomenon (Ragin 1991). The stance also understates the strengths of the comparative method. Comparative social science should identify the macro independent and dependent variables in order to locate themselves within a research tradition and strive to ultimately prove or disprove macrocausal theories. Further to this, King and Sznajder argue that there should also be 'thick' studies of crucial cases.[1] It is this benefit of being able to gather thick data that allows the researcher to test more complex arguments and theories than would be possible with statistical analysis (Coppedge 1999).

Case study methods offer significant advantages to research relative to strictly statistical methods of analysis. Firstly, qualitative studies are regarded as equal or superior for generating valid theory. A more comprehensive and detailed account with concrete evidence of events and behaviour about which the research is attempting to generalise will help draw out comparisons. Case studies help to generate fresh concepts, typologies, and hypotheses. Whilst other methods are useful and capable of creating theory, many of the insights that appear from statistical testing may have originated to the authors when comparing particular cases. The further one moves from direct observation the greater the possibility that the generated theory may be invalid in the field of IPE (Odell 2001: 170).

Secondly, and particular relevant for this research project, is that case studies are better suited than alternative methods for documenting processes. The world political economy is marked by processes, and this work is attempting to evaluate a number itself – institutional change, communication, politics, integration, bargaining, influence, policy creation for example.

[1] By thick, the authors refer to the in-depth understanding of a historical case, and secondly the data being numerous, diverse, and high quality.

Large-n statistical research tends to bias theory away from processes and towards structures. This is problematic since structures alone cannot explain much variation that occurs within structures, unlike case studies which are proven at doing so. Bennett and George (2005) study how case studies can contribute to theory development and testing. At the heart of the approach, they look at ways which incorporate attention to causal processes within political life, and to the causal mechanisms that link cause to effects. The authors stress that causal mechanisms are essential to causal explanation, and that case studies are the optimal means of examining the operation of causal mechanisms in detail (Bennett and George 2005: 21).

Thirdly, case methods allow for a stronger empirical base for a hypothesis of the case studied. In turn, there can be greater confidence in the validity of the hypothesis than would be possible if generated by statistical methods. Statistical methods restricts the analysis to observing a limited portion of a particular case: it is not possible to see any one of instance as whole, nor is it possible to see any of the facts omitted.

In each case study process tracing is applied. Bennett and George argue that process tracing is the most effective method of uncovering causal mechanisms within case studies. Process tracing is used to 'trace the operation of the causal mechanism(s) at work in a given situation' (Checkel 2008: 116). Through identifying intermediate steps, this method helps to find the connection between theoretically expected patterns the data. Lupovici (2009: 202) points out that:

'This method is used to identify and study […] agent-structure relations [and to provide] a way of studying not only the proposed theoretical concepts and of testing research hypotheses, but also of studying ideational factors, the evolution of social phenomena, and the influence of these phenomena on actors' behaviour.'

For this research process tracing has been used in order to reconstruct the events and process behind policy decision, but even more importantly to offer an effective analytical evaluation of the role of domestic actors in fiscal policy and European decision-making. Therefore, critical junctures within this particular policy-making process have been identified. Elite interviewing is essential for process tracing approaches to case study research. Process tracing often involves the analysis of political developments at the highest levels of government, and so elite actors are critical sources of information about the political processes of interest (Tansey 2007: 4).

1.42 Elite Interviews

Semi-structured interviews composed of mostly open-ended questions are assumed to be the most successful in generating meaningful and relatively impartial information. It is presumed that tightly-structured interviews are not preferred in this situation, being potentially too invasive and may be deemed with suspicion on the agenda or potential audience of the work. Policy-makers in particular are dependent on maintaining an image of success for the institutional and personal survival; whilst being under severe pressure from a critical, and possibly relatively weakly informed, public opinion and press. Whilst open-ended interviews could also generate desirable information, there is a need for coding in order to maintain structure. Therefore, semi-structured interviews allow for a sense of trust and the ability to ask both vague and controversial questions to obtain the subjective perceptions of the interviewee. Open-ended questions also allow the respondents latitude to articulate fully their responses. This requires far greater attention from the researcher since the interview had greater conversational qualities, but these types of interviews often have greater flow and depth of response that outweigh the disorganised and inconsistent ordering of questions (Aberbach and Rockman 2002: 674).

Elite interviewing will therefore be based on semi-structured interviews to be conducted largely in an ethnographic perspective in order to gain a picture of multiple realities. My preliminary targets are for Italy: Susanna Camusso, General Secretary of CGIL; Danilo Barbi, elected national secretariat for CGIL in 2010 and worked on macroeconomic policy issues; Luca Garavoglia, President of the Technical Committee for fiscal affairs with Confindustria; Andrea Moltrasio, Vice President for Europe with Confindustria; Maurizio Casasco, President of Confapi; Carlo Sangalli, President of Confcommercio; Luigi Angeletti, General Secretary of UIL; Annamaria Furlan, General Secretary of CISL. Potential interviewees for Greece have been identified as: Yannos Papantoniou, finance minister in Greece from 1994 to 2001 and currently President of the Center for Progressive Policy Research, an independent think-tank; Giorgos Papakonstantinou, Minister of Finance from 7 October 2009 to 17 June 2011; Yiannis Stournaras Minister of Finance from 5 July 2012 to 10 June 2014; and Yiannis Panagopoulos, GSEE President; Spyros Papaspyros, President of ADEDY; Giorgos Kavvathas, President of GSEVEE; Dimitrios Daskalopoulos, President of SEV.

Beginning with these potential interviewees I will employ a snowball system to identify further candidates (Denzin and Lincoln 1994). At the end of each interview, the interviewee will be asked to recommend a person to talk to. This question will be asked in all subsequent interviews who will in turn recommend further potential candidates, thereby respondents help to establish networks and thus the name snowball system. In order for such a system to be successful, the interviewees must be favourable to the objectives of the research. If the researcher or indeed the research were to be perceived as aggressive, pointless, or even dangerous they will not want to jeopardise his or her own position or standing by giving away contact information. Thus, even at such an early stage of the research, the interviewer must be sensitive to the perception of the research in order to expand his or her network and to advance with the analysis.

Elite interviews are essential to the research agenda since they provide information that would be otherwise unobtainable. Interacting with people at the highest level of government grants a unique perspective on political developments and decisions within the policy-making process. The information collected must portray the interviewee fairly, providing enough evidence to portray both the complexities and problems in the interpretation as well as its strengths. Thus the information should be used to illuminate rather than distort the historical record as revealed by the respondents and conclude with a plausible interpretation to combine into a coherent evaluation.

1.43 Operationalization

A vigorous empirical analysis is necessary within the framework to ensure an effective operationalization of the three variables. As has been noted, this process will be undertaken in the theoretical chapter. However, here the process will be noted briefly.

The variables may be interdependent, however they each possess separate qualities and require different methods to operationalise. Interests refer to the material considerations of domestic actors and are best translated through direct actions of societal groups. The work will identify these groups as the predominant coalitions that represent interests, such as trade unions, employers' associations, and the banking association. A mix of discourse analysis, by evaluating public statements of such groups, document analysis, and elite interviews will be utilised to operationalise interests.

Ideas, on the other hand, will utilise a mix of interpretivist and positivist methods. The framework perceives two distinct forms of ideas, *ideas as attitudes* and *ideas as practices*. In order to evaluate ideas as attitudes, public survey analysis will be undertaken – obtained through credible primary sources, such as Eurobarometer and Pew Research Centre. These sources provide the data required for a significant statistical analysis of ideas that will be evaluated through the multilevel binary logistic regression. Ideas as practices also requires quantitative analysis. Data will be taken from primary sources that evidences spending and saving information. Similarly, elite interviewing will be utilised here to reinforce any findings.

1.44 Multilevel Binary Logistic Regression

The unique contribution to the literature may be provided through a multi-logistic binary regression. This seeks to demonstrate the extensive politicization of public opinion vis-à-vis the European Union and contributes to the operationalization of ideas through quantitative analysis. The work utilizes a novel approach in a similar vein to Braun and Tausendpfund (2014) by evaluating the evolution of public opinion in a diachronic context. This is in contrast to traditional public opinion analysis that generally contrasts two distinct episodes (e.g. Armingeon and Ceka 2013). The methodology seeks to decipher the actual material implications of both the crisis and subsequent policy decisions on public opinion through using a multi-dimensional approach.

The work presents a multilevel logistic regression, correlating public opinion against both domestic and European institutions with respect to individual-level and contextual indicators, both current and expectations. Multiple regression models examines relationships between a dependent variable and a set of explanatory variables. A combination of individual-level impact and future individual-level expectations are suggested to represent crisis management, insomuch that economic fundamentals and future expectations are related to the perception of how the crisis is being managed. Further, opinions on the EU are determined within a national context, and this must be considered, such models that contain individual-level variables and aggregated contextual variables are known as contextual models (Kreft and De Leeuw 1998:8). This is more applicable for this type of analysis, given that Ordinary Least Squares Regression (OLS) leads to unreliable results and inflated standard errors (Snijders and Bosker 2011:15); on the other hand, multilevel analysis enables substantive analysis that accounts for contextual effects as well as considering homogeneity between units (Steenbergen and Jones 2002: 219). This analysis intends to demonstrate that economic explanations of politicization remain prevalent and have even intensified during the crisis, in line with a similar stance of Serricchio, Tsakatika, and Quaglia (2013), but opposing the recent dominance of identity-based approaches to European integration (e.g. Carey 2002; McLaren 2004, 2006, 2010).

The data on public opinion has been drawn from Eurobaromoter surveys (2004-2015). There are clear advantages to utilizing this source, particularly Eurobarometer surveys provide both a consistent source of data, conducted biannually, whilst also offering a wide range of indicators. In addition, this consistency enables an effective retrospective analysis as well as ensuring recent data. It should be noted that not all questions have been asked consistently, with no discernible pattern for when they were asked or not.

In multilevel models the data is hierarchal, respondents are nested in countries and years. Since individuals share common characteristics on unmeasured variables, the assumption of error independence is violated and thus simple regression would result in incorrect standard errors (Thomas 2016: 218). Thus, the multi-level regression model relaxes the assumption of independence by fitting a random intercept model to account for the binary structure of the dependent variable, ensuring individual-level characteristics as well as country-level may be accounted for more accurately. The model applied by this work utilizes both individual level data (e.g. sex; age; occupation), as well as aggregate data (e.g. macroeconomic indicators);

whilst, also utilizes country-level (e.g. state of the economy) and individual-level indicators (e.g. personal financial situation) through the analysis. This statistical specification enables the research to evaluate variations of trust in individual trust probabilities across individuals, countries, and time.

As a dependent variable, trust in the EU and trust in domestic institutions is utilized, which in a logistic regression is represented by the values 0 and 1. Logistic regression, as opposed to linear regression, can account for dichotomous variables and is based on the transformation of odds of the dependent variable into the logarithm (Skog 2009: 355). Quite simply, odds are defined by a probability – whereby the chance of an event occurring are divided by the chance of it not occurring; or more specifically, the chance of trusting the EU is divide by the chance of not trusting the EU.

To simplify the results, the work presents odds ratios and the standard significance of the results to facilitate understanding. Odds ratios indicate the strength of the relationship between the independent and dependent variable, highlighting the prercentwise changes in odds of distrusting the EU or domestic institutions (Ringdal 2007: 414). The work demonstrates the significance through the p-value, a value that corresponds to the likelihood that the data is true and assuming the null hypothesis is true. The closer to 0 this value is, the more significant the findings. Finally, the work also provides the Nagelkerke R2 value: this is an adjusted Cox and Snell r-squared value, which represents the log likelihood for a baseline model. Essentially, the value attempts to represent how reliable the model by summarizing the proportion of variance in the dependent variable associated with the predictor independent variables, with a larger R2 value indicating higher variance up to a maximum of 1.

In summary, the multilevel binary regression presents a highly effective and accurate means of not only verifying politicization vis-à-vis the EU; but also identifying the extent and, most importantly, identifying the possible sources. In utilizing Eurobarometer data it is ensured the findings are reliable, given the regularity and scope of the research over the period. As such, the findings provide a sound understanding of the mechanisms of politicization and thus presents a means of operationalizing ideas. The method also overcomes limitations inherent in reliance with multiple regression analysis: the most crucial of these is the requirement to isolate causal variables and to relegate competing variables to mere control factors. This overlooks a number of causal interactions, interdependencies, co-causation, and pre-requisite factors (Dellepiane and Hardiman 2012: 2). Consequently, it serves to overcome the core problem in empirical analysis of public opinion, that is notoriously intangible and obscure.

1.5 Challenges of Research

Most of the concerns are related to elite interviewing, the most pressing of which is gaining access. This point in the research will have a fundamental effect on both the nature and quality of data collected, and consequently on the trustworthiness of the research provided. (Shenton and Hayter 2004: 223-231). Elites have purposefully created barriers to insulate themselves from society (Laurila 1997; Shenton and Hayter 2004; Welch et al. 2002); making them 'visible but not necessarily accessible' (Mikecz 2012: 489; Laurila 1997). Similarly, given their position, elites are entirely within their rights to manipulate or deny information, making the research an arduous and risky process. Nevertheless, albeit self-evidently, without gaining access there can be no research (Cochrane 1998: 2124).

Given the specificity of the research, the selection of interviews is based on a person's participation in a given political issues, which in turn means interviewees are generally not interchangeable. The rejection of a request for an interview can have an effect on the analysis and outcome of the study (Cohen 1999: 7). Interviewing elites poses a significant methodological problem, since actually obtaining interviews and gaining first-hand accounts is very challenging, particularly on politically sensitive issues (Laruila 1997; Ostrander 1995; Sabot 1999). A further consideration, considering this work is targeting foreign based candidates, are cross-cultural barriers. These include both verbal and non-verbal communication, in etiquette, beliefs, norms, and the value system, all of which may easily lead to misunderstandings (Mikecz 2012: 482).

Numerous studies emphasise the importance of thorough preparation, since it will both reduce the status of imbalance by highlighting the 'seriousness of the interviewer' and project a positive image to hopefully gain their respect (Berry 2002; Harvey 2011; Thuesen 2011; Zuckerman 1972). This will not only ease the interview process but will become essential for building a rapport and helping the "snowball" approach Laurila (1997). for example, argues that the researcher demonstrating an in-depth knowledge of the research topic will be beneficial to establishing trust.

The final concern for the elite interviewing is that of language barriers. It is assumed that given the nature of many of the required subjects have a solid fundamental understanding of English, and will be perfectly capable of undertaking a coherent interview. Yet, it may be likely that there are some that do not speak English sufficiently well. The research strategy here is impeded since, unfortunately, I am unable to speak either Greek or Italian. Therefore, in order to conduct the investigation the use of an interpreter will be needed to undertake interviews for those that do not speak English. Whilst this is useful insomuch that it allows me to ask the relevant questions to continue the research, there could be questions relating to whether the interviewees conceptualized questions and categorized experiences in the manner I expected or indeed myself did. Therefore, this poses a number of issues for the research process: how good was the translation? How were concepts translated? And how well has the reply been depicted to me? The responses in particular lose significant meaning since much of the subtlety of language can be lost when using an interpreter, silences and select emphasises that were being used to stress key issues or a particular point are likely to be lost in the process of translation (Herod 1999: 318). However, as Herod argues, this is likely to be a greater problem in research involving non-elites – where the goal of the research is often to ascertain an individual's "life-story" rather than with interviews that are aimed at eliciting information about facts and policy.

On the other hand, the multilevel model generated by this research also may have accompanying problems. Perhaps the most prominent of these is the issue of missing data, which would lead to the decrease in representativeness of the population (Christophersen 2013: 81). The work also needs to care for causal inference, a common problem of multilevel modelling (Gelman 2006). In such situations, there are possibilities the results may be misinterpreted and that misleading conclusions could be reached whereby contextual effects could be indicated where in reality none exist (Ibid: 434).

1.6 Summary

This chapter presented the background to the work and highlighted the deficiencies of the current literature on fiscal policy and crisis management of the sovereign debt crisis. Much research has been dominated by economists, who in their analysis consider policy decisions as separate and isolated events whereby decisions have no connection. This technique loses various key political nuances from the understanding. Firstly, in not recognising the interconnectedness of decisions, the analysis fails to account for the path-dependency of decisions – that characteristics and influences of past decisions have an impact on current policy. Secondly, the episodic treatment of fiscal policy shares some of the limitations inherent in reliance with multiple regression analysis: the most crucial of these is the requirement to isolate causal variables and to relegate competing variables to mere control factors. This overlooks a number of causal interactions, interdependencies, co-causation, and pre-requisite factors (Dellepiane and Hardiman 2012: 2), which is exactly what the multi-level binary logistic regression seeks to overcome. Thirdly, identifying specific periods of fiscal consolidation is in itself problematic. The literature itself displays significant inconsistency on this matter since changing the definition slightly may have a profound impact on results. Similarly, since fiscal consolidation is often identified by changes in the budget balance in relation to GDP, periods of significant reform may go unnoticed if there are little improvements in financial statistics; whilst rapid changes in the denominator may shrink the ratio without any significant contraction. Lastly, explanatory variables are subject to distortion when extracted from their context.

It becomes clear that an alternative approach to studying fiscal policy in the crisis is necessary. This work will seek to draw analysis back into political economy and address its current shortcomings by following Schirm and utilising a societal model of government preference formation. The chapter highlighted the research methodology and methods to tackle this. It discussed the research methodology chosen and outlined the required methods for the operationalization of ideas, interests, and institutions. The work concluded by assessing potential challenges to the research.

2.1 Theoretical Chapter

The introduction outlined the premise of the work and evaluated the methodology chosen to undertake this research. It is useful here to recap the central hypotheses of this thesis:

H1: That there has been a continued politicization of public opinion vis-à-vis the European Union.

H2: The perception of crisis management in the public sphere is crucial, whereby a perception of ineffective policies and a supranational imposition has contributed to the deterioration of socio-economic fundamentals, which has been a catalyst for declining public sentiment.

H3: This deterioration of public opinion has been matched by vehement opposition from domestic interests – namely the trade unions. Thus, societal interests and ideas have converged during the crisis, forming a prominent obstacle to effective reform.

H4: Extensive focus on labour market reform has played a defining role in societal considerations. Both the unions and public opinion are expected to oppose measures, while the employers should favour reform.

H5: Consequently, it is hypothesised that government preference formation has been consistent with the positions taken by domestic interests and ideas, and that both policy decisions and their subsequent implementation have been impacted by domestic politics.

This work will delve into the realm of domestic politics of Greece and Italy in attempting to establish the sources of influence for policy making. This, in turn, is tackling a major area of the literature that has not currently been explored in depth. There is evidence to suggest a move away from traditional means of analysing crisis response and fiscal coordination in Europe. Patrick Howell (2013) revealed that out of various theories used and tested to evaluate crisis responses by individual states, domestic considerations hypothesis held the best fit for understanding the observed outcomes; likewise, Vilpisauskas (2013) postulates that domestic politics has a renewed and enhanced role in this time of crisis. Armed with a theory of domestic institutional effects on international crisis coordination and politics allows for systematic analysis of modern economic crisis. Furthermore, whilst issues of fiscal coordination and financial regulation may be typically confined to a narrow range of actors, the noticeable shift and redistribution of resources and further discussion of additional redistribution of competences combined with the politicisation of such issues in face of the crisis has engaged a much wider audience on such policy matters. Drawing from postfunctionalism, the work assesses how the rising development of politicization and growing societal resistance to European policy and integration is affecting government preference formation. This highlights the importance of ideas in political economy, since when a particular set of ideas are called into question – particularly when the public become involved - international coordination and policy creation can become more challenging.

Therefore, the next section provides an overview of the theoretical framework of this work, beginning by assessing the postfunctionalist perspective this work will operate from. Following this, the work presents the political economy of fiscal policy, emphasising a theory of domestic politics as put forth by David McKay. It also considers the underlying cause of fiscal imbalances that were allowed to develop in the build-up the crisis. Following this, the second section undertakes a theoretical discussion. It will put forth why Schirm's approach has been adopted in this research through evaluating and contrasting it with the classical work of Gourevitch. Thirdly, the section describes Schirm's approach and will consider the three variables within the approach by demonstrating how the research will operationalise them.

Finally the chapter acknowledges methodological concerns whilst explaining the reasons for choosing both Greece and Italy for the comparative study.

2.2 Postfunctionalism

This section considers the framework of the paper. It looks to outline and evaluate postfunctionalism, identifying the core tenets of the theory and analysing the applicability of this to the work. Further, the section also discusses alternative heterodox and critical theorizations that could be equally as applicable, arguing why postfunctionalism has been selected.

This work approaches the research from a postfunctionalism perspective, a theory originally developed by Hooge and Marks (2008) that seeks to understand developments in EU integration given the dramatic shift to a "constraining dissensus." Hooghe and Marks make a powerful argument to look beyond traditional theories of integration that concentrate on IR-based, elite-focused and functionalist theories; instead, they draw extensively from growing research on domestic and mass-level of EU-politics, prominently considering public opinion, electoral choice and party politics. This perception strongly supports the premise of this research, that stresses domestic influences (namely public opinion and interests) impact electoral choice and party politics. The base for this understanding has been the extent to which European integration is now directly impinging upon core areas of state sovereignty, a feature exacerbated since the crisis, which has become a catalyst for politicization and Eurosceptic attitudes. Consequently, the core premise of the theory is that politicians now face a "constraining dissensus" and expect to see a 'downward pressure on the level and scope of integration… a limitation of governments' room to manoeuvre… and a mismatch of functionally efficient and politically feasible solutions' (Hooghe and Marks 2008: 21-23). In line with the domestic political framework of this paper, this suggests a rise of domestic considerations that impacts government preference formation and resistance to external EU pressure.

Notably, the crisis is represented by what is known as a ‘postfunctionalist moment,’ whereby there has been an unprecedented level of politicization (Hutter and Kerscher 2014). The main consideration has been the clear negative socioeconomic impact that can be directly attributed to EU policy, whereby the welfare of member states citizens has been undermined by excessive austerity measures imposed on indebted states. Notably, Greek public sector pay and pensions have been reported to have decreased by up to 25% as a consequence, in addition to peak levels of unemployment at 27.9%, and even youth unemployment of up to 60%. This, as a consequence, leads onto the second distinguishable feature: the level of mass public action as a response to European policy. This critical feature is targeted against the EU, and to a lesser extent against national institutions for implementation, and may be seen to challenge the level of implementation accordingly. Thirdly, public support and trust for the EU has decreased dramatically to extraordinarily low levels: Greece has displayed statistics of over 80% of the population distrusting the EU, according to Eurobarometer data; while, Pew Research also indicates that positive views of the EU fell to record lows of 45% in 2013, a feature confirmed by Eurobarometer findings that suggested positive views were as low as 30% in 2013 (Pew Research Centre 2013; Eurobarometer 87). The period also marked a clear divergence in opinions for the EU, and each other, with a distinctive North-South split (Debony 2013).

The final characterization has been high level of domestic political instability, in part fuelled by politicization of EU policy. Policy analysis indicates the vast proportion of electoral rhetoric focussed on the Euro crisis, particularly in the early years, with a high level of early elections triggered by such issues. Between 2011 and 2013 virtually every election was predominantly about the response to the crisis (Schimmelfennig 2013: 323). Perhaps the best representation of this case may be drawn from both Greece and Italy, whereby there have been a change of governments as crisis-driven emergency measures in November 2011, argued to be an attempt at depoliticization by technocratic intervention (Bozkurt 2013). The consequence of the above features is that the constraining dissensus should have led to hindered decision-making at an EU level, and prevented or even reversed the process of integration, or at least a differentiated integration.

A key notion underpinning the theory is that of *refraction*. This suggests that the politics of the European Union will have to pass through and be distorted by the conflicts and agendas of national politicians, for whom the European level is of secondary importance. This feature is particularly aligned with the central understanding of Schirm's framework: namely, that domestic politicians are accountable to the domestic electorate, and thus should be responsive to their demands. Ultimately, the core belief is that public opinion has become sensitive to European policy developments as it is now acutely aware of the direct socioeconomic implications to the distribution of costs and benefits to individuals. This process has been exacerbated by the crisis management policies, with austerity and the promotion of labour market flexibility, all of which challenge these benefits. There emerges a dilemma, whereby national politicians are pressured to not implement harsh austerity, but where they are strongly influenced by supranational powers and the financial markets to undertake such measures.

Consequently, the core contribution of postfunctionalism to the theoretical literature on integration has been to note the distinct the process and outcome of integration when the regime fails, insomuch that neofunctionalism focuses on positive feedback processes of spillover and path-dependence; but, postfunctionalism emphasizes backlash driven by politicization, which results in less integration than expected (Schimmelfennig 2017). Hooghe and Marks 'expect to see a downward pressure on the level and scope of integration… a limitation of governments' room to manoeuvre… [and] a mismatch of functionally efficient and politically feasible solutions' (2009: 21-23). Ultimately, the specifics and extent to what happens depends almost entirely on the level of politicization, meaning 'the difference in integration outcomes of crises is explained by variation in domestic mass politicization' (Schimmelfennig 2017: 6).

However, the theory has been extensively critiqued, particularly citing the argument that further substantial integrative steps have been attempted. Schimmelfennig (2013) in particular argues that countries have been able to shield the decision-making processes from the effects of politicization by 'forming euro-compatible governments, avoiding and constraining referendums on institutional reform and by delegating competences to supranational organizations' (Schimmelfennig 2013: 323); similarly, Hutter and Kerscher (2014: 280) affirm this perception: 'We share Schimmelfennig's (this volume) view that post-functionalists have so far failed to show how such politicization decisively affected the policies and institutional reforms adopted during the crisis. Yet, we would like to add that more evidence on the extent and especially the kind of politicization induced by the crisis are needed to definitely answer whether and how politicization affects the future of European integration.' Further, Schimmelfennig (2016) offers a qualification as well, noting a caveat that the continued socioeconomic impact of the crisis may continue to affect EU support and undermine EU-level policy as support continues to rise for Eurosceptic parties. This research looks to offer evidence that in fact politicization induced by the crisis, in Greece and Italy, has played a profound role; while, societal pressure has permeated domestic decision-making structures and firmly impacted the course of crisis-management. It is true that the immediate reaction of the EU and national states was to isolate policy-making, which found success, but the longevity of the crisis has somewhat nullified this approach and empowered domestic considerations. Therefore, this research intends to evaluate the role of domestic politics in government preference formation and correlate this against the policy decisions made and those that should be expected.

It is important to qualify why postfunctionalism is deemed the applicable framework for this analysis. Therefore, it is imperative to understand the limitations of traditional theories of integration: neofunctionalism and liberal intergovernmentalism; as well as wider heterodox and critical understandings, such as neo-Gramscian and Marx. On the one hand, liberal intergovernmentalism and neofunctionalism form the classical dichotomy of integration theory, and provide key insights that this paper refers to. While, on the other hand, this paper considers the implications of crisis management and how there has been an emergent class struggle but also how the dynamics of capitalist structure account for structural power dynamics and may provide key inferences for patterns of reform and integration, which both Marx and neo-Gramscian scholars draw to the fore.

Neofunctionalism considers the process of spillover of competences to an EU-level and isolation of decision-making by elites the two prominent characteristics of the integration process. It is a theory based on elite economic preferences, bargains and efficiency-driven logic of regional integration. Throughout the crisis, the creation of the banking union is often cited as a clear case-in-point, whereby the clear dissonances of a monetary union – in lacking financial integration – was a prerequisite for functional spillover. On the other hand, liberal intergovernmentalism invokes explanations of a ‘liberal’ form of preference formation that forms the foundation for interstate bargaining, which privileges the position of large states and leads to specific delegations of power to the EU. It is argued that institutional and policy outcomes are based on the constellation of member state preferences, bargaining power and negotiations in an intergovernmental bargaining process. This has clearly played out throughout the Eurozone crisis with the centralization of decision-making and delegation of power to a supranational level in the areas of fiscal supervision and banking regulation.

In spite of this, however, there is a clear lack of appreciation for "the domestic." Both theories account for domestic influences in their framework but do not suggest sufficient influence that public opinion or domestic groups may have on reform patterns. This work seeks to restore the understanding on domestic influences in government preference formation as a key causal variable in the reform trajectory in Greece and Italy, a matter further discussed in later sections.

Neo-Gramscian scholars take a different approach, with the international political economy approach fitting the EU into the wider neoliberal project. The key application of this framework is best exemplified by Bieler and Morton (2001: 4) whom cite that the process of EU enlargement in 1995 should be understood as a process of the transnationalization of production and finance that constitutes globalization, which stresses the class struggle of the consensual and ideological character of hegemony (Bieler and Morton, 2001: 16–20). In this light, Van Apeldoorn develops the notion by introducing "embedded liberalization," which considers how transnational neoliberal social forces must engage with alternative European socio-economic interests; that sees growing global market forces and freedom of transnational capital in a compromise with the subordinate interests of productive capital and organized labour (Van Apeldoorn 2001: 79)

However, neo-Gramscian approaches also fall to a similar deficiency as neofunctionalism and liberal intergovernmentalism, in not fully encapsulating the domestic aspect. Neo-Gramscian literature overemphasizes the power of transnational class or capital interests, using these to define political and economic dynamics, respectively; while, it overestimates the power of neoliberal capital, understating or even ignoring the role of the domestic. For this reason, postfunctionalism offers a far better alternative explanation and understanding. Even deeper, postfunctionalism notes the importance of public opinion, through politicization, as a key variable in policy-making; a feature of this paper.

Marx also presents a compelling framework that draws similar insights. Marxism understands that the nature of the state is central, whereby capital-labour, inter-capitalist and international competition combine to explain austerity policy; and that, differences among states over time, in terms of their size and international situation and contested domestic relations, produce varied imperatives towards austerity and prospects of effective resistance (Dunn 2014). Marxism provides rational justification as to why states and capital can pursue policies that may be seen as economically and socially destructive. As is discussed later in this work, the power of transnational capital has certainly been key in this process; but, in doing so, this has intensified internal domestic influence, which is where this work concentrates.

Marx reflects on four key tenets as to why such policies may be introduced, such as austerity or liberalization. Firstly, states are not neutral arbiters, instead there is a systemic class bias. One must appreciate capitalist interests and the process of accumulation that will help theorize the politics of austerity. Secondly, contested social relations mediate policy outcomes. Thirdly, each state should be considered in relation to other states and to a worldwide capitalist system. This is particularly true when considering states within the EU, that must react according to both international competition and the demand of supranational institutions. Fourthly, power asymmetries between states plays a significant role. This is strongly related to the former point, whereby Greece forfeit policy sovereignty to the EU.

As such, this paper certainly aligns with these insights and leans heavily on these understandings. In particular, the theorization of class struggle is pivotal to this works conclusions. It is argued that cleavages within labour hinder the power of the movement against capitalist pressure, undermining their influence on policy. The fact is, social order is held together by the promise of collective progress; but the crisis has clearly challenged this perception and put the project of European integration in jeopardy (Streeck 2014: 67). Indeed, this is a process indicative of the longer-term shift in global power that represents long-lasting fault lines (Fouskas and Dimoulas 2014). On the other hand, it is clear that endemic capitalist interests have been buttressed by transnational interests exerting pressure upon the state, reflected by clear consistencies with these powerful domestic interests as the path of reform strongly aligns with their priorities. In addition, it is clear that power asymmetries played an important role in the policy trajectory of Greece.

Thus, the key reasoning behind the selection of postfunctionalism as the framework for analysis lies in the perceived logic of crisis resolution strategies adopted by the EU. This is the major point of difference that separates postfunctionalism and Marx for the applicability with this paper. Marxism certainly provides an extremely compelling position given the developments of the crisis, and the work certainly aligns with the perception that the stance takes. If one considers the wider purpose of labour market reform trajectory, it is clear that it aligns to tackle the overarching flaws of the Eurozone, in attempting to resolve the key deficiencies in the OCA. Labour market reform measures have concentrated predominantly on liberalization and flexibility, highlighting the struggle of the Eurozone to finally complete the architecture of an OCA by moving towards perfect labour market flexibility. Therefore, the paper suggests that this process is inextricably linked with the wider process of European integration, which in turn impacts upon public opinion vis-à-vis the EU and presents postfunctionalism as the most apt theory given its foundations in integration theory, and the applicability of this theory to this work given its roots in domestic political theory as opposed to neofunctionalism or liberal intergovernmentalism. Finally, the clear framework provided by postfunctionalism in identifying causals is both apt and aligned with Schirm's specification, reinforcing the reasoning behind the choice of a postfunctionalist position.

2.21 Politicization

The importance of politicization has been recognized long before the crisis, the origination may be traced to the understanding that a shift of power to a supranational level would have a political spillover of sorts (Haas 1958). Yet, perhaps the defining moment was in 2005, whereby the Constitution failure in France and Holland pointed towards a rising trend of politicization, urging academics to understand the mechanisms and processes of this new phenomenon (Kriesi et al. 2008; Koopmans and Statham 2010; Risse 2010; de Wilde 2011; de Wilde and Zürn 2012; Statham and Trenz 2013a, b). The core argument of politicization is that domestic groups have structurally grounded conflicts over European integration and policy, and that the EU polity is becoming politically salient insomuch that these actors and groups mobilize politically for such issues.

While Hooghe and Marks (2008) advance the theory of postfunctionalism, there has been a significant theoretical contribution to politicization from academia. For instance, Fligstein (2008) puts the idea of "Euroclash," which identifies there are 'winners' and 'losers' of European integration, whom self-identify as such, and thus mobilize in domestic politics on this basis. Further, Kriesei et al. (2009) proposes that politicization is driven by losers, and particularly by right radical parties that are motivated by cultural issues. These particular perceptions are highly valid to the current crisis and approach of this work, which reflects upon the fact that citizens in the crisis countries have become acutely aware that they are ‘losers’ in the EU project, a problem certainly exacerbated by the crisis management strategies of the EU. While many authors note that politicization is driven by the negative aspects of EU integration, with an emphasis on identity politics, this paper considers the negative socioeconomic implications of the EU the main driver for Greece and Italy in the current climate.

As illustrated through postfunctionalism, this work concentrates on the extent of politicization through the crisis, both considering the possible sources and potential impact on government preference formation. Politicization has been perhaps the most significant development of the crisis, as this political crisis threatens the very core of European integration – causing polarization and unsettling a host of nations domestic politics (Copelovitch et al. 2016). The superficial evidence is clear, with widespread mobilizations all directed at EU intervention and initiatives, as well as the rise of party conflict based on EU matters. The result has been a ‘transnational cleavage’ that Hooghe and Marks (2017) argue that the flexibility of established political parties on major conflict dimensions is ‘constrained to the extent that they have durable constituencies of voters, a decentralized decision-making structure, a self-selected cadre of activists, a self-replicating leadership, and a distinct programmatic reputation.’

There has been a multi-faceted process in the rise of politicization. Firstly, there has been a realization by citizens of the impact of the EU and its policies on individual socioeconomic welfare. This, clearly, has been increased markedly by the extreme austerity forced upon nations as it has been the people to bear the burden of adjustment. Secondly, the executive discretion approach adopted by the EU, that has been reflected as a dominance approach to intergovernmental decision-making, has removed any semblance of democratic accountability (White 2014; Fabbrini 2016). The is strongly linked to the concomitant removal of policy areas from the national level as EU-level competences have grown, described as “politics without policy” and further strains representative democracy (Schmidt 2006; Scicluna 2014). There are certainly merits to this emergency approach, however, it nonetheless raises serious concerns for political contestation and the rule of law. Nevertheless, in a domestic setting the result is a politicization of public opinion vis-à-vis the EU, and without a coherent supranational approach, the pressure is applied to domestic governments. Thirdly, a problem of legitimation has occurred whereby public contestations are intrinsically linked to issues of political legitimation over the political system (Statham and Trenz 2015). The type and scope of political authority is called into question, particularly given the processes adopted by the EU during the crisis, as the future of integration and what constitutes a legitimate political order both become questioned.

Fourthly, as a combination of the above, public opinion has become a field of strategic interaction for party politics. The ‘constraining dissensus’ now means politicians face strategic challenges from their own political arena and has generated greater party conflict along EU-based lines. Although initially parties attempted to collaboratively ignore these issues, the rise of populism and a return to nationalism saw increasingly extreme parties drawing sections of support, leaving no option but for mainstream parties to respond to these growing concerns in the public sphere: ‘Most mainstream parties continued to resist politicizing the issue. But a number of populist, non-governing, parties smelt blood. Their instinctive Euro-scepticism was closer to the pulse of public opinion’ (Hooghe and Marks 2008: 21).

Finally, public and media resonance has been a key driver. There is a critical role for ‘mediated politics’ (Bennett and Entman 2001), that demonstrates divisions of interest alone are not sufficient for politicization, but they must be visible in the public sphere. The mass media plays a crucial role in modern society to provide crucial information about politics and political communication. These discursive opportunities enable politicians and the media to amplify political debate and shape the rhetoric. This is a further feature that has increased notably since the crisis and invaluable to disseminating the complex and obscure processes and policies of the EU. It is also this factor that transitions what would otherwise be “extreme” attitudes into mainstream public debates (de Wilde and Trenz 2012). Increased media attention certainly adds to the growth of politicization, as the demand for information increases, it may shape voter preferences’ and identities, and affects the legitimacy of the EU (Statham and Trenz 2015).

Perhaps most importantly, however, is taking seriously the varied character of politicization. Following Hutter and Grande (2014) it is possible to conceptualize politicization across three interrelated factors: issue salience, actor expansion, and polarization. Salience considers the visibility of issues for the public and conforms to earlier conceptions of politicization (e.g. Green-Pedersen 2012; Guinaudeau and Perisco 2013). Secondly, the expansion of actors’ accounts for the way in which dominant executive actors are joined by other actors in public debate, insomuch that if only politicians debate European issues, it cannot be truly politicized (Statham and Trenz 2012). Finally, polarization considers the intensity of societal conflict over issues.

What becomes clear is that in both Greece and Italy, all the above qualities are fulfilled. The issues are highly salient primarily given the extensive socioeconomic problems that have occurred because of both the crisis and subsequent remedy, both of which have been somewhat attributed to the EU. This process has engaged all relevant domestic actors and resulted in significant mobilizations. While finally, there is significant domestic conflict over the matter, but primarily societal resistance to European pressure, something continually portrayed through the media. This work shall directly assess the scale and scope of politicization in the multilevel logistic regression, that provides quantitative data to analyze the intensity and specific focus of politicization. Further, the work will consider the scale of party conflict, level of demonstrations, and actions of domestic interests to support the analysis of politicization.

The significance of this development is noted on the international stage, with a wide array of depoliticization strategies being adopted by the EU and national governments (e.g. Schimmelfennig 2014; Genschel and Jachtenfuchs 2013). But the damaging aspect is that the rise of politicization is founded on a lack of trust. The EU is incapable of effectively managing domestic crises and the lack of a consensual approach has undermined citizens trust in the EU and its institutions. The avoidance strategies of mainstream parties resulted in a dynamism and the rise of new political parties that were able to capitalize on the changing voter preferences (Hooghe and Marks 2017). For this reason, parties have been one of the main drivers of politicization in mainstream politics (Hooghe and Marks 2009). The existence of such alternatives provides scope for the continued influence of domestic political actors as democratically accountable governments attempt to appease their bases. This is why this work considers the rise of politicization as a crucial characteristic of government preference formation and is indicative of a core mechanism by which domestic influence may still permeate decision-making in spite of the EU's intent to isolate policy.

Consequently, it is hypothesized that this development should be highly significant for government preference formation. Given that labour market reform has been the focal point of reform for the Troika, it is expected that this should be perhaps the most politicized issue. It is therefore suggested that the growing domestic influences against EU initiatives, both in the form of interests and ideas, should affect government preference formation, limiting implementation of certain measures and guiding the content.

2.3 Intergovernmentalism in the crisis

There is a need to address the wider considerations for decision-making during the crisis, notably considering the transnational interdependence of EMU and the supranational capacity of the EU (Schimmelfennig 2017). These qualities aid in explaining why may have favoured integration in the preliminary stages of the crisis, as a high level of each ensures a favourable perception of integration. The work also assesses the intergovernmental union of the EU, that throughout the crisis transformed from a process of consensual decision-making to one of domination (Fabbrini 2016). This, therefore, helps provide a better understanding of the overall impact on decision-making to by outlining the relevant context in which policies are made and thus ensures a more effective evaluation of domestic political factors.

2.31 Transnational Interdependence

Firstly, there is a need to assess the transnational interdependence within the EMU, since it ensures that governments have an overwhelming incentive to cooperate. Underpinning the transnational interdependence is a two-way sovereign bank interdependence (Merler and Pisani-Ferry 2012). This implies that states were not only indebted to their national banks, but also responsible for saving them. Any bank failure would massively exacerbate the already catastrophic socioeconomic situation by sending the economy into a downward spiral, ensuring the Eurozone also had a responsibility to save them.

However, the interdependence was not only national; as neofunctionalism explains, endogenous transnational interdependence exists within the EMU by financial interdependence. The monetary union created varying growth strategies, with a supply-side model being pursued by Northern states accompanied by wage restraint; while Southern states adopted a demand-led model coupled with fiscal expansion and wage growth (Hall 2012: 358-9). Consequently, a large balance of payment shift occurred from Southern states to Northern, which resulted in Northern banks being equally exposed to the crisis as they were dependent on the South. In essence, Northern states were obliged to bail out the Southern banks in order to protect their own (Schimmelfennig 2017: 12).

This interdependence, coupled with unsustainable costs of exit, generated the necessity to progress with further integration and crisis management strategies. For Southern states, exit would have resulted in uncontrollable economic disaster and no access to capital markets as well as possible contagion; while for Northern states, any Southern state exit would have created a drastic appreciation of currency, a dramatic fall in exports, and a long-lasting recession. Such negative externalities generated a desire to preserve the euro by bailing out the affected nations and providing crisis management strategies. As such, previous intergovernmental distributional conflict was turned into a mixed-motive game (Schimmelfennig 2015). Although states continually sought to protect their national welfare by shifting the burden adjustment, no state was willing to give up the euro and this survival was underpinned by negative interdependence and prohibitive costs and thus demonstrates why Greece and Italy was forced to adopt strict measures in spite of domestic political resistance. This paper recognizes that fact and thus seeks to assess in what ways have they been applied that may demonstrate the continued influence of domestic considerations.

2.32 Supranational Capacity

A second critical feature that ensured the adoption of EU policies during the crisis has been the extensive supranational capacity of the EU. This characteristic has been aptly perceived as a “domination approach” by the EU to policy decisions, seeking technocratic imposition and subordination; as opposed to a democratic consensual system (Fabbrini 2015).

Underlining this transformation has been the recognition that the compromise of a monetary union alongside decentralized and loosely coordinated economic policies is insufficient. This resulted in a return to ordo-liberal principals: that rules, not politics, should govern the EMU (Fabbrini 2015). The intergovernmental union institutionalized in the EU works upon the assumption that policies that are important for domestic governments, notably economic policy, may be Europeanized only if decided by national governments, which is coordinated through the European Council, or Euro Summit and Eurogroup (Fabbrini 2016). However, this consensual approach failed to effectively manage the crisis and presented a dilemma of collective action. To facilitate this, an active process to increase powers attributed to technocratic institutions was undertaken, like the Commission and ECJ, intended to more effectively coordinate, and to some extent subordinate states, to policy by technocratic intervention. The Council has become the true decision-maker (De Scoutheete 2011) or in fact even the new centre of EU politics (Puetter 2013). The shift in focus for policy towards stability and economic governance has empowered the Council and ensured the Commission now serves support the Council's deliberations, rather than setting the political agenda. This has been reinforced empirically, as there has been a demonstrable erosion of Commission power of initiative based on the fact that the deeper the crisis developed the more important that leadership and decision-making were taken on the highest political level (Curtin 2014: 7; Leino and Salminen 2012: 864).

In fact, this intergovernmental logic overshowed the European Parliaments co-decisional power. Various highly important treaties, for instance the ESM or Fiscal Compact Treaty, were formed not recognizing the EP as a policy-actor. The problem comes in that the EU operates as an interparliamentary system on an international level, that poses significant difficulty in coordination, but also that the intergovernmental union is based on decision-making not controlled in either Brussels or capitals of member states (Lord 2011; Crum and Fossum 2013). Such confusion weighed in the favour of the Council as it was able to harness unprecedented autonomy in economic policy-making. This paradox is explicated by Habermas (2012: 44) whom outlines the fact that the Council was included in the architecture to enhance decision-making power; but at the same time, the EU pays a high price for this due to the lack of democratic legitimacy with its far-reaching decisions.

At the same time, the newly formed ECB played an important role during the crisis. What has been observed has been a substantial shift in power in Europe around the centrality of the ECB and limited state autonomy in policy-making. The ECB had an interest in preserving the euro and also the capability and resources to implement its own policies. The crisis expanded the competences of the ECB, to the extent that in 2012 the ECB acquired the power of supervision. Perhaps most troubling is the fact that the ECB has only 'shadow principals' and is thus 'structurally designed to ignore the European Parliament, Council and Parliament' (Adolph 2013: 313), and has been vehemently critiqued for overstepping its limitations on power – argued to be 'arrogant, unaccountable and authoritarian… politicized and free from external political control' (Ryan 2015: 1-3; Sanbu 2015).

Consequently, a process of domination has occurred to force political economic convergence of member states by formal judicial rules and technocratic automatism (Fabbrini 2015). This, however, has not had a consistent impact – with some benefitting, while others have paid significant costs. This served to increase the transnational cleavage between states and even within them (Fligstein 2010). Furthermore, it also restructured national policy discretion as struggling member states had limited control over the externalities of their policies. In essence: 'The combination of an intergovernmental decision-making regime with the German ordo-liberal approach has led to a convoluted imposition of rules that have undermined the solidarity between member states' (Fabbrini 2015: 15).

It is clear that voluntary policy coordination has been suppressed and that has given way to a Schmittian effect, with power being concentrated to an ever-greater extent in the EU executive (Craig 2014). More worryingly, however, has been the restructuring of the EU and undermining of its founding principles due to unilateral German leadership, with the hierarchal ordering of creditor and debtor states that is incompatible with political constitutionalism (Bellamy 2013; Eriksen 2014). This new economic governance system, while working in practice, has neither been effective nor legitimate, thus acting as a core source of politicization. Important for this paper is both the fact that states have been subject to this process, and have needed to obey its rulings, as much as how it has contributed to rising societal resistance.

2.4 Labour Market Reform

Further, the work seeks to consider both why the heart of Troika pressure has been on labour market reform and what the outcome of this has been on domestic politics. This section, therefore, provides a brief overview and discussion of this process. The section shall begin by evaluating the specific structural reform agenda and the potential motives behind this; following which, the implications of this are assessed – which ultimately should result in politicization of labour market reform.

Arguably the focal point of European pressure throughout the crisis, and beginning prior to, has been labour market reform. The Troika has strongly urged the crisis states to implement a serious structural reform agenda that would liberalize labour markets. One of the founding principles for these demands has been the divergence in competitiveness between the South and North. Labour markets, such as Greece's, are argued to be over-regulated, displaying a significant insider bias. The ECB noted that a lack of convergence by the Southern nations was founded on several core factors that hindered their economic growth potential and contributed to the crisis, notably weak institutions, structural rigidities, weak productivity growth and insufficient policies to address asset price booms (ECB 2015: 30). The proposed resolution to the above problems was specified predominantly as a promotion of labour market flexibility, that would restore competitiveness, lower the risks of a permanent decrease in potential output growth, and ultimately lead to economic integration in the euro area (ECB 2012: 10; ECB 2015: 30). Thus, fiscal consolidation and coordination strategies were imposed as a necessity for short-term stabilization, yet labour market reform was pronounced as the solution to the crisis and to ensure long-term stability and growth.

However, this is a process that began in the 1990's, given the observed structural deficiencies that existed, which hindered convergence. The crisis was certainly a catalyst for the neoliberal agenda and provided necessary impetus for reform, an argument strongly linked to the "crisis-induces-reform-hypothesis" (Drazen and Grilli, 1993). The EMU carries one-way pressures for labour market flexibility, largely based on the interdependency of economies within it (Monastiriotis and Zartaloudis 2012). Without the necessary political integration to complement the monetary union that existed, the Eurozone had limited explicit compensation mechanisms, lower labour mobility and wage flexibility, and less integrated financial markets than the United States and what an OCA should expect. As a result, it was exceptionally vulnerable to the nature of spillover effects and drastically needed economic convergence, which requires substantial labour market reform (Bongardt and Torres 2012). While the EMU displayed many successes, economic policy coordination during the first decade was poor. The Southern states in particular lagged behind with structural reforms, while the financial markets failed to distinguish between Eurozone sovereigns and contributed to rising macroeconomic imbalances. These deficiencies were well recognized and lay bare when the crisis finally exposed the severe weaknesses in the EMU.

The crisis has brought to the fore the understanding of monetary policy in the Eurozone. There has been a clear convergence of preferences, as steps have been taken to enhance governance and ensure cooperation in economic and even social policy – in an attempt to respect the interplay between monetary policy and broader EU governance as a coordinated response is necessary to address the crisis and respect the economic interdependence that exists, as the EU has pushed for more integration (Ibid). Fiscal consolidation came to the fore and is understood to be anchored to Germany; while, competitiveness issues are being tackled through structural reforms targeting labour market flexibility. Austerity not only brings with it pressures for fiscal consolidation, but also for structural reforms in order to recast institutions to improve international competitiveness (Petmesidou and Gullien 2014).

The majority of literature perceives labour market reforms under austerity as instances of liberalization. Liberalization is understood as a feature of political-economic change whereby there is an expansion of market relations that encroaches in areas traditionally held by democratic and collective decision-making (Streeck 2008; 2011). The consequence for labour market policy is a weakening of the position of labour and expansion of employer discretion, due to a decentralization of industrial relations, dismantling of collective organizational capacity of class actors, and a reduction in employment protection legislation and protective institutions (Picot and Tassinari 2017: 472; Baccario and Howell 2011). Indeed, this has certainly founded the approach of the Troika and become the defining characteristic of labour market reforms under austerity, attempting to address competitiveness issues by finding new bases of capital accumulation and undermining the position of labour (Becker and Jager 2012; Heyes et al. 2012). The problem comes, insomuch that the understanding of liberalization and reform considers a promotion of flexibility as an essential component of competitiveness and employment; whereas, empirically this relationship is far from solid, particularly in Southern European economies (Amable et al. 2011; Avdagic and Salardi 2013).

This failing resulted in growing divergences as the process of liberalization did not contribute to growth and only further challenges domestic political factors. As such, the role of multi-level governance has expanded rapidly to address such resistance, as there has been an internalization of EMU constraints on a national level, with the EMU limiting the available options for national adjustment strategies (Armingeon and Baccaro 2012). Institutional change has taken place, as a new equilibrium between the EU and member states has developed that favours economic governance and coordination of policies. The crisis represents that the institutional limit of framework had been reached, as the level of policy interdependence necessitates more substantial reforms to increase both economic and political integration. The epitome of this approach has been the adjustment programmes and associated conditionality that requires states to undertake necessary structural reform.

On the other hand, it has been argued that the EU has facilitated the interests of capital. Stockammer (2014: 13) for instance argues 'this particular form of European integration is the outcome of a strategy of European national capital classes that have used European integration to undermine, in their view, excessively corporatist and Keynsian (national) states.' The core argument is that, by design, these struggling nations have been forced to adopt austerity and undertake competitive devaluation. Similarly, Kennedy (2016) holds a similar perception that the crisis further enabled capital to embed neoliberalism in Greece, by 'precipitating an internal devaluation of labour costs through the institutional transformation of collective bargaining institutions and the flexibilization of labour markets, and further embedding neoliberalism through the creation of National Competitiveness Boards.' At the same time, it has been a deliberate policy decision in an attempt to take endemic problems of clientelism.

The reform package, however, both did not account for institutional variety of nations and challenges powerful domestic insider interests. Further still, policy-makers did not consult with the unions or employers' in the design of these measures, increasing the likelihood of policy failure. Utilizing a Varieties of Capitalism approach, it is simple to perceive the problem: in that the Southern states have different institutions regulating economic activity than that of their Northern counterparts. Southern European nations utilized a strategy of devaluation to offset wage increases, while Northern states followed a process of wage restraint for export competitiveness. The single currency undermined the formers strategy, while the Northern states continued to profit. As such, even those states that were fiscally responsible were damaged by the crisis, and as such the application of austerity is unwarranted (Johnston 2016). These circumstances not only directly challenge the redistribution of benefits and individual welfare of citizens, but the consequential failure further deteriorates the situation resulting in lower trust and greater opposition – fuelling a vicious cycle of increased EU control and pressure, with even more severe reforms and thus widening the transnational cleavage. It has also been seen that numerous mistakes have been made with the design and implementation of these packages: firstly, there was a concentration on labour market flexibility; secondly, reforms were implemented under a pro-cyclical fiscal policy due to poor EU policy coordination framework; and thirdly, undertaken alongside a vehement period of austerity – that is both undesirable politically, but also often incompatible with structural reform (Boeri and Jimeno 2015). Finally, there is extensive empirical data to indicate that the strategy of the Troika is misinformed, based on a misinterpretation of the crisis: both the theory of fiscal profligacy or unit-cost competitiveness, on which austerity is founded, is misguided; whereby, the reality is that the crisis was generated by excessive private sector debt leverage, aided by a liberalization of European financial markets and a global banking glut (Storm and Naastepad 2015).

It may be true that more effective labour market reforms and greater tools for fiscal co-ordination are necessary to escape the crisis; however, when reforms are imposed upon nations they are prone to backfire, particularly when governments fail to take ownership of the reform agenda (Blanchard et al. 2014; Boeri and Jimeno 2015). It has also been argued extensively that the initial diagnosis of the crisis was wrong, which has meant the resulting agenda of austerity and labour market reform has pushed the subjected nations further into decline (Storm and Naastepad 2015).

Nevertheless, the societal ramification of these developments has been extensive politicization. It is for this reason that the paper hypothesizes that labour market reform should be the foundation of declining trust level vis-à-vis the EU. The clear representation of how significant this has become is the active attempt of the EU to depoliticize labour market reform by sheltering the decision-making process from opponent political pressure (Bozkurt 2013). This is a critical development, for as noted by Monastiriotis and Zartaloudis (2012: 3): 'domestic politics and European policy processes shape the influences of these pressures and they restrict and/or facilitate the national responses to them.' Consequently, extensive politicization that emphasizes labour market reform should see said measures impacted within the national sphere.

2.41 Type of Crisis?

The impact and consequences of the Eurozone have been somewhat obvious, however the causes and nature of the crisis have caused widespread disagreements. This is particularly concerning given that the policies of readjustment has been largely drawn from the misdiagnosing of the crisis. (E.g. Dadush and Wyne 2012) A variety of explanations have been put forth: the common perception, at least largely pronounced in the media and through subsequent austerity policy, is that the crisis is derived from fiscal indiscipline (Sinn 2010); others emphasise excessive private leverage (de Grauwe 2012; Storm and Naastepad 2015); whilst issues with competitiveness have equally been cited (Smaghi 2013). It is, unfortunately, a misdiagnosis of the problem to conclude that fiscal indiscipline was the ultimate catalyst. There needs to be a recognition that there are chronic structural flaws of the Eurozone itself. Ultimately, 'the sovereign debt crisis and the capital flight of 2010-12 were triggered by the vulnerable position of credit constrained local governments in a monetary union and of a fragmented banking system with no credible deposit insurance.' (Terzi 2015: 1) The notion of capital flows or a debt shortage as the final cause of the crisis may be different concepts, however, they are derived from the same problem.

Whilst capital flows may have been cited as a prominent characteristic of the cause of the crisis, it alone does not provide an overriding explanation for the crisis. For instance, it can be argued that neither fiscal profligacy nor capital flows were the cause for Italy. As shall be discussed, Italy had one of the smallest net financial balances in the Eurozone prior to the crisis and one of the smallest ratios of household loans to gross-disposable income in the Eurozone. This demonstrates that there was not large financial inflows or excessive borrowing. Instead, the Italian problem is derived from issues with global competitiveness due to a lack of proactivity and inherent structural economic problems – such as rising wages and declining productivity.

Central to this work in understanding both the cause of the crisis and the subsequent reaction to it is the varieties of capitalism literature. The Northern countries, namely Finland, Denmark, and Sweden, rely on forms of revenue that are income-elastic and thus tend to increase in good times – namely taxes on personal income. This is represented by substantial surpluses in good times and the fact that public expenditures are unusually large relative to GDP. Thus, since their revenues and expenditures are relatively large compared to other Member states, they possessed greater latitude in undertaking expansionary fiscal measures and also benefitted from relatively larger automatic stabilizers. On the other hand, the Southern periphery rely far less on taxation of personal income and can be seen to run large budget deficits even in good times. Governments spend nearly as much as their Northern counterparts, relative to GDP. There is generally far more emphasis on indirect taxation, and thus far lower taxation on personal income, as well as being characterized by significant tax avoidance. Given these inherent problems, financially there was less scope to undertake discretionary expansion.

This also brings to light the overwhelming problem of a lack of a central European mechanism for fiscal coordination that would provide a stabilization tool in times of crisis (Holland and Portes 2012; De Grauwe 2013). Not only would this limit the spillover effects of discretionary fiscal policy but, if the scope of coordination is ambitious enough, could enhance stabilization gains in a monetary union (Schalck 2006). Yet, the lack of such a mechanism provided a degree of latitude to member states to respond to the crisis in their own manner. Inevitably, bailout and consequent measures attached to such alleviative help forced the direction that should be taken, nevertheless policy decisions remain at the autonomy of the state. This leaves decisions open to the influence of domestic considerations and it is assumed that prevalent domestic forces play a fundamental role in fiscal policy. This has been observed in the years preceding the crisis and their role is hypothesised to be exaggerated under crisis conditions whereby their interest are directly threatened.

The Greek crisis is not an isolated event, divorced from the financial crisis. Neo-liberalist ideals founded in the structural base of European monetary integration must be questioned. Critical analysis must challenge the neoliberal "efficient market hypothesis." A more theoretical reading on the systematic causes of the Greek crisis draws from the Marxian and Keynesian theories of the crisis. Recently the work of Marx (1859), Schumpeter (1942), and Minsky (1974) has reclaimed relevance in their thought about deriving crises. Despite differing greatly in their philosophical ideals, they presuppose that to understand the fundamentals of a crisis one needs to first understand the proximate causes, the preliminary shock, whilst also understanding the founding cause – which is always credit expansion. (Kindleberger and Aliber 2005: 64)

The neoliberalism doctrine postulates that, given freedom from interference, markets are the most moral and efficient means for producing and distributing goods and services. It is argued the prominence of neoliberal ideology has transformed the material basis social reproduction towards a more speculative debt driven model of capitalism. Soederberg believes in its basic form neoliberalism states 'political and social problems should be solved primarily through market-based mechanisms as opposed to state intervention.' (Soederberg 2005: 938) Stephen Gill identifies a number of contradictions within neoliberal logic:

'The logic of neoliberalism is contradictory: it promotes global economic integration… as well as undermining the traditional tax base and the capacity to provide public goods… Moreover, neoliberal macroeconomic policies, aligned to the ideology of the competition state, may generate a more conflicting inter-state dynamic that may prolong economic stagnation for the vast majority of the world's population through, for example competitive

austerity and beggar-thy-neighbour currency depreciation… While capital tends towards universality, it cannot operate outside of or beyond the political context, and involves planning, legitimation, and the use of coercive capacities of the state.' (Gill 1995: 419-422)

These contradictions played out almost entirely in the case of the EMU, institutionalising asymmetries. There was a failure of market discipline effectiveness; and there was a divergence between core and peripheral nations – seen as a failure of surveillance. The EMU enabled economies to borrow at artificially low rates, (Nelson et al. 2010: 6) whilst Feldstein argues this created a tendency towards chronic deficits since fiscal extravagance did not change the country's interest or exchange rates, and that states needed to use fiscal and not monetary tools to offset economic weakness. (Feldstein 2006: 422) The second core characteristic refers to Gill's competitive austerity, which focuses on the loss of competitiveness.

A post-Keynesian analysis of the crisis furthers that it is the result of imbalances between the core and peripheral countries inherent within the European monetary model. (Papadimitriou and Wray 2012: 4; Pérez-Caldentey and Vernengo 2012: 3) In fact, for years before the crisis post-Keynesians had been critical of the setup of the EMU. It can be derived from a crisis of underconsumption and overproduction, which initiated the credit expansion within the Greek economy. Keynesians identify three trends within the current crisis that can be attributed to neoliberal limitations: financialisation, which has led to bubbles; global imbalances; and lack of demand.

Similarly, Marxian analysis of the current crisis sees it as one of capital over-accumulation and a decline in the rate of profit (Brenner and Jeong 2009: 1). Many Marxists accredit the de-regulation of finances and consequent exponential rise in transactions and speculation. Overbeek (2012) alleges a deep economic crisis of over-accumulation has been building, a tendency developing since the creation of the EMU. It provided both German, and to a lesser extent French, industry a competitive edge and lead to the persistent accumulation of capital coupled with a restrictive policy on wage and domestic demand.

Robert Skidelsky feels the roots of the crisis are not a failure of economics, but a failure of ideas. When Skidelsky spoke with Alan Greenspan, a prominent acolyte of Friedman and the Chicago school, Greenspan felt that his entire intellectual edifice had been destroyed by the crisis. (Skidelsky 2009) If there is one thing to emerge from the financial crisis, it is that there is a greater role for government management of the economy. This, however, necessitates an ‘intellectual rehabilitation of the state as a potentially rational economic actor’ (Skidelsky 2010: 13). It is necessary to consider the ideological foundations of the current system, and to reconfigure the image of the state to acknowledge its investment function is separate from its political incentives.

Likewise, Eichengreen (2010) stresses Schumpeter would have emphasised the role of ideology underlying the crisis whilst proposing the role of government intervention to prevent a total breakdown of the system. Rudd (2009) follows Skidelsky and Schumpeter in drawing out the ideological limitations of the current system. He furthers Greenspan’s concerns, indicating that the entire ‘ideological legitimacy’ of neoliberalism has been destroyed; (Rudd 2009: 29) Whilst Rudd also reinforces Skidelsky’s presumption of a state revival, that the demise of neoliberalism must replace the state as an essential actor. (Ibid: 25)

Such critiques are often drawn from a comparative-historical analysis, founded in Marxian and Post-Keynesian political economy, emphasising the correlation between past crises. The similarities between the Argentina crisis and the Greek crisis are clear (Kretzmer and Levy 2012) and portray the risks accompanied by the increasing level of globalisation and financialisation of the world economy. Similarly, the crises emerging within other peripheral

EMU countries display similar characteristics of this hypothesis. Considering this, there must be a structural problem with the ideological foundations of monetary integration.

In conclusion, it should be noted that ‘periodic deep crisis is fundamental to capitalism,’ (Marquand 2009) and the current crisis represents a crisis of neoliberal capitalism. The recognition that the current crisis is systematic infers that it cannot be solved by mere bailouts but requires a deeper, reconstruction of the system accompanied by significant domestic structural reform. In these terms the crisis in Greece and Italy can be seen as a recurrence of an inherent structural flaw of the current system, intensified through the triumph of neoliberal ideals within the EMU – financial deregulation, capital account liberalization, and financialization. The only difference to be found is in the proximate causes, the ultimate cause remain the same: the unfettered expansion of credit.

The sections below will discuss the potential causes of the crisis and how there may have been a misinterpretation of the crisis; utilizing quantitative evaluation to reinforce the discussion. The understanding leans heavily on the popular critique of Storm and Naastepad (2015) and applies their framework of analysis.

2.42 Fiscal Profligacy as the cause?

Following a theoretical overview of the cause of the crisis a trend appears in understanding. That it is structural characteristics within EMU that reinforced asymmetries and enabled uninhibited credit expansion. These two strands underpin the mainstream economic perceptions of the crises, but it is how they are presented that draws differences. There are two predominant schools of thought, the first is that the expansion of credit fuelled fiscal profligacy and resulted in unsustainable debt; while the second is that capital flows to the periphery lead to declining levels of the competitiveness. The former rhetoric has dominated mainstream media and early austerity reform packages particularly in Greece, imposing severe fiscal consolidation on the affected nations. Critics argue that these austerity packages represent resurgence of neoliberalism. Stiglitz extends this perception arguing the austerity measures imposed are more to serve the interests of the core countries. He feels these measures are a ‘mutual suicide pact’ (Stiglitz 2012). Bideleux agrees with this presumption, arguing that such measures often favour creditors than debtors. (Bideleux 2012: 401) Even more concerning is that these packages are based on the flawed logic that crisis countries were profligate. This first section will analyse the perception, demonstrating that in reality fiscal profligacy is a misunderstanding of circumstances and that the imposition of severe consolidation could be exacerbating crisis conditions.

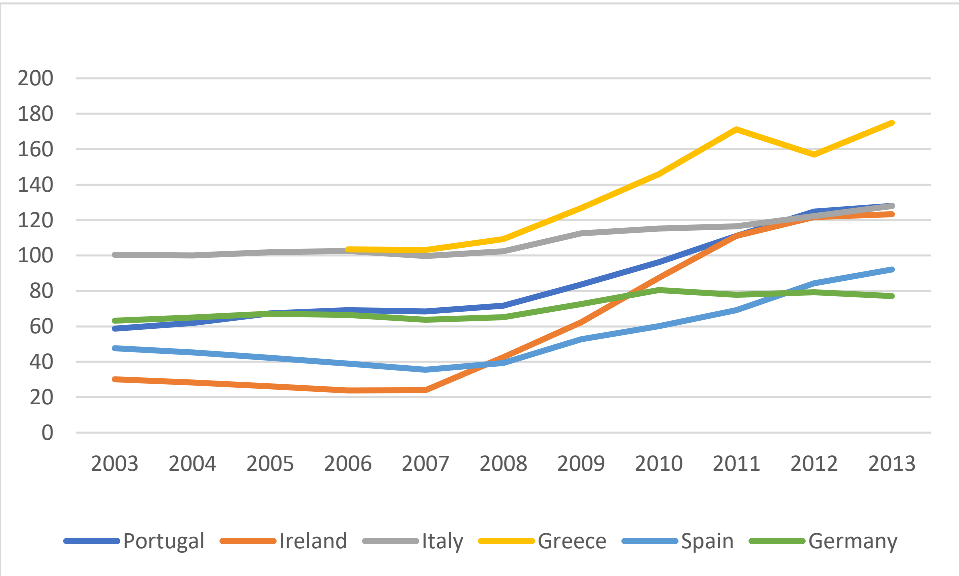
Fiscal profligacy refers to the notion that the crisis was largely derived from certain countries within the Eurozone, namely PIIGS, did not adhere to the fiscal rules of EMU, thus experiencing deficits far larger than the rules permitted. This fiscal hypothesis suggests that the reckless fiscal records of these countries increased their exposure and vulnerability to the US sub-prime mortgage crisis and bankruptcy of the Lehman brothers that were central catalysts. It is the common perception adopted by the ECB and upheld amongst politicians and is clearly represented through the austerity policy that has been implemented widely since the crisis. The logic of “expansionary fiscal austerity” insists that governments should proceed with substantial spending cuts even in the face of rising and high levels of unemployment, since fiscal consolidation should raise households’ future expected disposable income and consumption whilst also increasing investor confidence and thus investment (Alesina and Ardagana 2010). The intensity of this belief is demonstrated by the fact that the Stability and Growth Pact was reformed in becoming the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union that aims to prevent any future fiscal issues of a similar nature.

It seemed fitting that the worst affected nations in the periphery all had large public deficits, which suggested the problem was derived from fiscal profligacy and should be tackled through austerity (Zezza 2012: 41). Compounding this misconception was the Greek failure to comply with pre-crisis fiscal rules that fuelled political narrative aimed at fiscal irresponsibility, ignoring the structural flaws that developed significant macroeconomic imbalances and weaknesses (Lane 2012: 56). Germany's influential finance minister, Wolfgang Schäuble (2011), wrote in the *Financial Times* that 'It is an indisputable fact… excessive state spending has led to unsustainable levels of debt and deficits that now threaten our economic welfare.' Equally, aforementioned this is a perception that was upheld by the ECB, former President Jean-Claude Trichet (2010) felt 'the roots of the sovereign debt tensions we face today lie in the neglect of the rules for fiscal discipline that the founding fathers of Economic and Monetary Union laid out in the Maastricht Treaty.'

The argument has been developed further and presents a theoretical explanation for fiscal profligacy. This indicates under the conditions of a monetary union, certain countries consciously over-borrow. Drawing from literature on fiscal federalism, the theory of soft budget constraints argues that soft-budget constraints and bailout expectations may lead to conscious over-borrowing. This hypothesis is derived from two conjectures, on the one hand there is the notion that having acceded to EMU countries reverted to their pre-EMU fiscal strategies; while, on the other hand, the second conjecture argues that the Euro presented an opportunity to deliberately over-borrow in the knowledge that there would be bailouts available (Baskaran and Hessami 2011: 3).

Indeed, with reference to the idea that it "seemed fitting," superficial indications may support the premise. Making matters, at least appear, substantially worse was the conspiracy with Goldman Sachs over masking the Greek debt. Greece being the worse affected nation inspired the rhetoric of a fiscal crisis, and to a degree lived up to the proclamations. It was not until the crisis hit that the true extent of the Greek problem became apparent: Greece's public debt-to-GDP was expected to rise to 124.9% in 2010; further, the Greek government announced in 2009 that its budget deficit would reach 12.7% - four times specified by the Stability and Growth Pact. It was the image of profligacy, largely derived from aggressive Germanic rhetoric, which demonised the Greek situation as a self-inflicted crisis of over-indulgence. Considering the crisis exacerbated both Greek finances and other crisis hit countries this image was reflected onto the rest of the PIIGS. At the same time, the rapid deterioration of public finances contributed to the growing image of fiscal recklessness. All crisis countries, with the exception of Spain, had a debt-to-GDP ratio in excess of 100% by 2013.

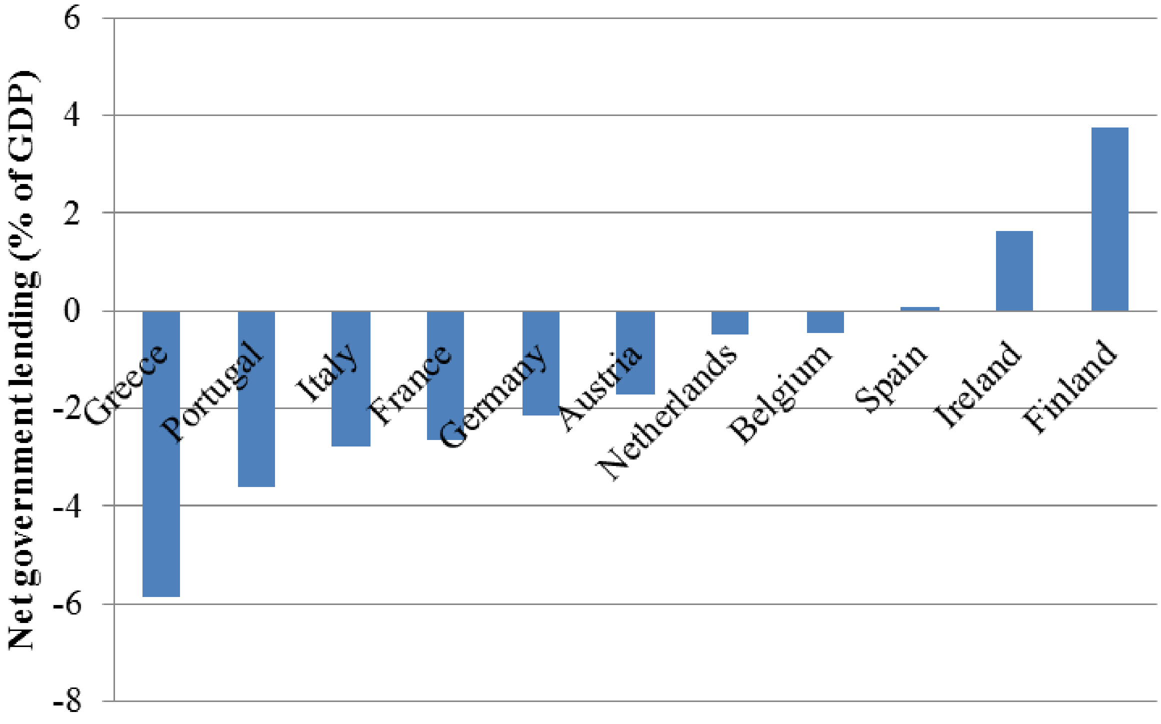
Figure 1: Public Debt to GDP in PIIGS countries since 2003 (as a percentage of GDP)



Source: Eurostat

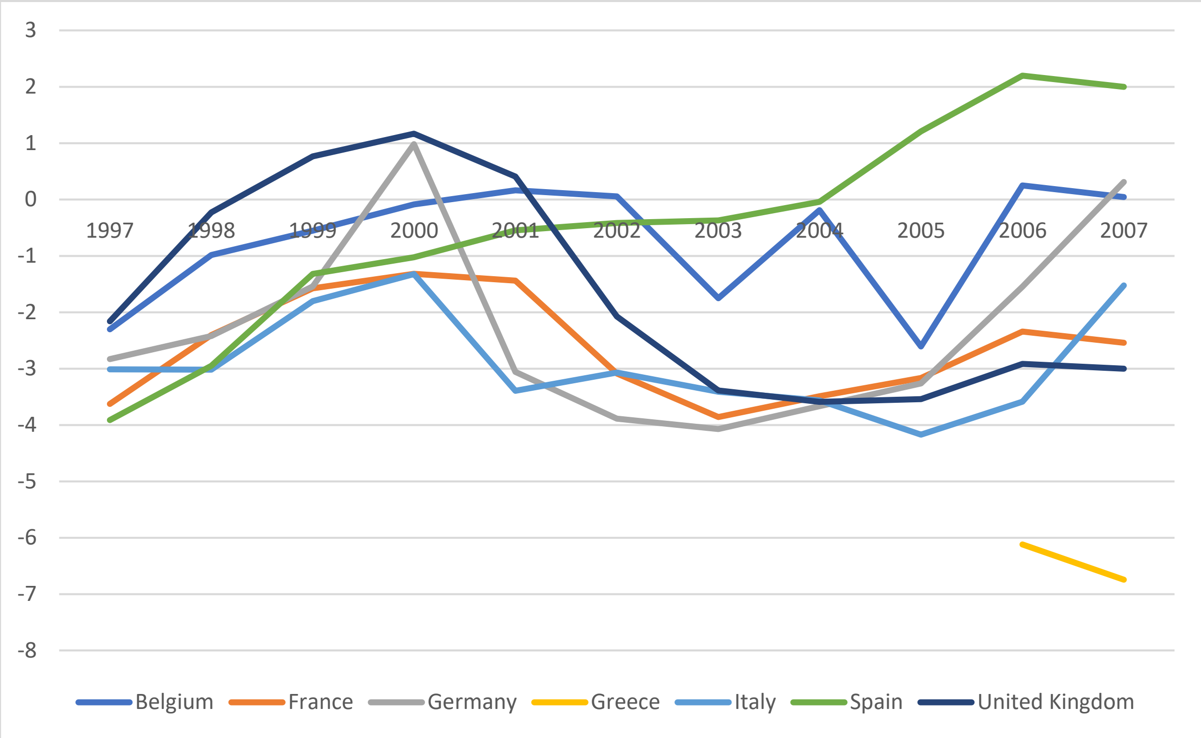
Yet, a deeper analysis of fiscal balances pre-crisis indicates underlying flaws with this perception, essentially the data does not support the claim. Superficial analysis highlights a number of disparities between budget deficits and the effects of the crisis on certain countries. Admittedly, Greece displays a larger disparity compared to other core EU countries as shown in Figure 1, but not to the extent that it has been demonized. Other affected nations – for instance Spain and Ireland, whom encountered significant speculative pressure, maintained fiscal surpluses between 1999 and 2007 whilst also were two of EMU's lowest debt performers. Belgium, which had a debt level exceeding 100% GDP at the onset of the crisis, as well as Germany and France, whose deficits were relatively similar to Italy's, were largely unaffected in relation.

Figure 2: Net government lending EMU11 (1999-2007 average)



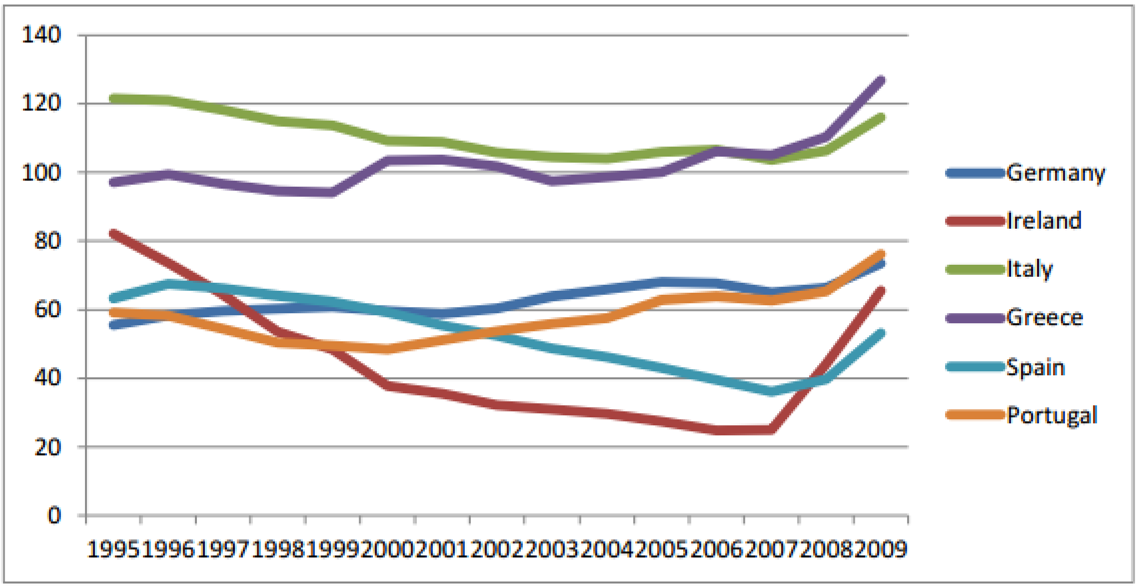
Source: EU Commission's Directorate General for Economic and Financial Affairs Annual Macroeconomic Database (AMECO)

Figure 3: General Government Deficit 1997-2007 (As a percentage of GDP)



Source: OECD

Figure 4: Public debt 1995-2009 (as a percentage of GDP)



Source: Eurostat (2011)

The picture that emerges from the above graphs demonstrates that there was no true discrepancy in overall borrowing. There is only data from Greece from 2006 onwards, for general government deficit, however it is safe to assume based on the other trends that Greece is similarly not excessive in borrowing. Clearly, Greece's situation is more of an outlier than the other crisis countries, but not to the extent where excessive profligacy could have caused the scale of the crisis that emerged. Baskaran and Hessami (2011) reinforce this perception, that despite rising borrowing in relation to the pre-Maastricht phase, evidence suggests that deficits did not increase excessively – even in the crisis countries. Further, public debt demonstrated a falling trend until the 2007 crisis where expenditure to mitigate the effects of the crisis becomes inevitable. It is illogical to attribute profligacy as the fundamental cause of the crisis based on these preliminary facts.

In fact, in 2007 the majority of member states were running a primary public balance. There was an average of 2.0% across the Eurozone, with both Greece and Italy also demonstrating slight positive results – 0.2% and 3% respectively. If there is a comparison of the level of public primary balance required to stabilize the debt to public balance ratio, then only France had a problem. The ‘crisis countries’ all benefitted from a low level of interest rate relative to their growth level. This indicates that there was not a structural imbalance of public finances, but that the crisis itself was the fundamental cause of the deterioration of public finances, reflecting both a fall in activity and the use of fiscal policy to stabilize the economy.

Further still, table 1 illustrates that in the 8 years prior to the crisis, government debt as a percentage of GDP actually declined on average across the Eurozone. Sovereign debt in Italy, for instance, reduced by 7 percentage points 2000-07; whilst in Ireland it fell 8 percentage points. These countries were performing better in 2007 than earlier in EMU history, again presenting a conflicting image to the profligacy perception. Greece did increase, but only by 4 points, which cannot be described as “reckless” or “profilgate,” especially considering France and Germany increased by greater margins. More importantly, bond markets were stable about the sovereign default risks, represented by member-country specific risk premiums falling and interest rate spreads maintaining stability – both at extremely low levels

(Chen et al 2012). It was following the onset of the crisis that sovereign debt rose rapidly and forced the subsequent bailouts. Average public debt in the Eurozone rose 33 percentage points of GDP during 2008-2012.

Table 1: Increase in indebtedness (per cent of GDP), 2000-07

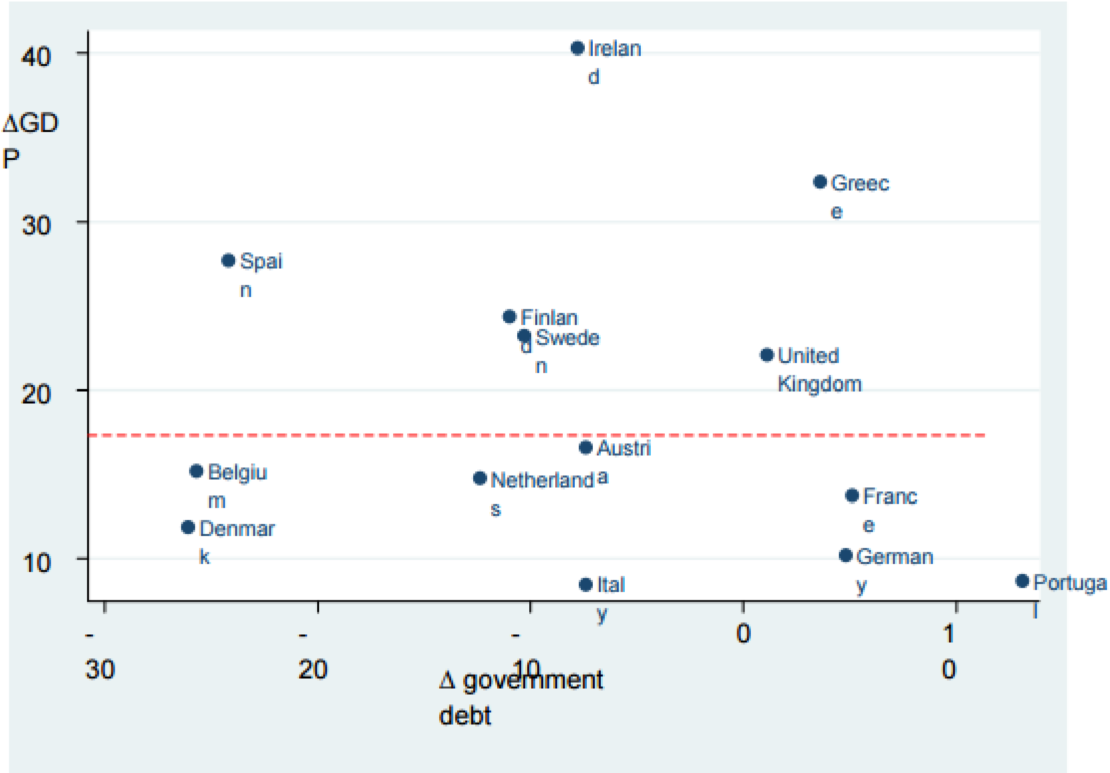
	Households	Non-Financial Corp.	Financial Corporations	Govern-Ment	Total debt increase	Real home price index
Belgium	7 (11%)	57	124	-26	162	48.7
Germany	-10 (-25%)	0	33	5	27	-14.0
Ireland	54 (33%)	-13	612	-8	645	52.8
Greece	32 (24%)	13	41	4	90	37.2
Spain	34 (30%)	78	74	-24	162	73.1
France	15 (26%)	20	113	5	152	81.7
Italy	17 (48%)	23	22	-7	55	37.6
Netherlands	32 (53%)	-42	217	-12	195	14.4
Austria	7 (11%)	68	72	-7	140	1.2
Portugal	26 (74%)	12	71	13	122	-11.2
Finland	23 (23%)	-77	70	-11	4	37.7
Eurozone-11	*21 (27%)*	*12*	*132*	*-6*	*159*	*28.3*
Denmark	37 (76%)	60	145	-26	216	57.9
Sweden	24 (25%)	49	70	-10	133	55.3
U.K.	31 (35%)	-34	367	1	365	63.4
Average	23 (30%)	15	145	-7	176	38.3

Source: Eurostat and OECD data

A second distinction to be made from the above data is that debt originated almost entirely from the private sector. This is particularly evident in the rising debt of financial corporations, that on average increased by 132 percentage points during 2000-07. Household debt grew 21 percentager points, while liabilities of non-financial corporations grew 12 points. This demonstrates that sovereign debt changes were insignifcant compared to private debt, especially in the crisis countries. Greece, for instance, household debt grew 32 points, corporate debt increased 13 percentage points, and financial sector indebtedness by 41 points; this entirely eclipses the 4 point increase in public debt. Unsustainable indebtedness was a primary characteristic of the cause of the crisis; however, identifying sovereign debts as the underlying factor is a misunderstanding.

Following Storm and Naastepad (2015) this point can be further substantiated. Utilizing data from 2000-07 they present an analysis to determine a correlation between higher indebtness and economic growth. The conclusion indicates that there is no statistically significant association between economic growth and public debt, insomuch that variation in public indebtness does not present a conclusive explanation for growth differentials. (Storm and Naastepad 2015: 8) These results, illustrated in Figure 1, are significant since they suggest that higher growth in the periphery cannot be linked to excessive state spending, which likewise means it cannot be attributed to higher real wage growth, a loss of cost competeitiveness, higher imports and a growing current account deficits (Storm and Naastepad 2015a: 9; Storm and Naastepad 2015b).

Figure 5: The Eurozone: the increase in sovereign debt is not associated with increased real GDP (2000-2007)



Source: Storm and Naastepad (2015) calculations using Eurostat Data.

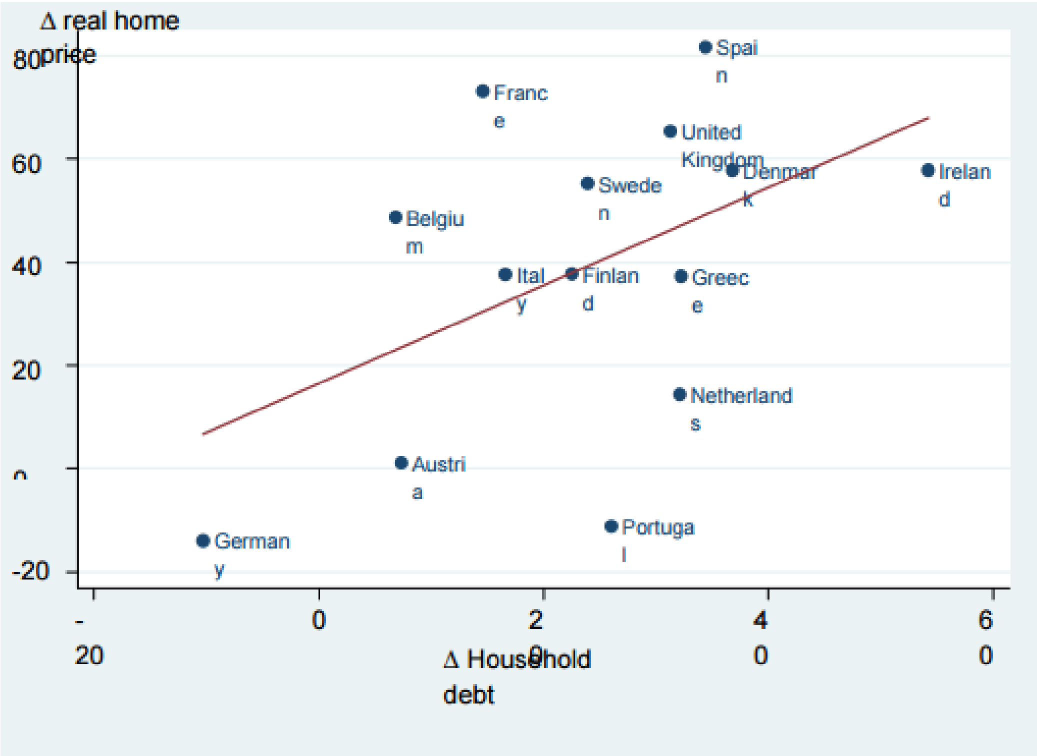
Note: Δ real GDP = the percentage increase in real GDP (2000-07); Δ government debt = the increase in government debt as a percentage of GDP (during 2000-07). The (dashed) line represents the fitted OLS curve, showing that there is no statistically significant (at 10% or less) association between Δ government debt and Δ GDP

The analysis finds no correlation between economic growth and higher levels of non-financial corporation's debt level, as well as between debt of financial corporations and growth. The latter observation is particularly suggestive, since it implies the increasing levels of debt in the financial sector did result directly in higher levels of growth. This leads onto a promising question of what has this debt been used for? Financial theory suggest that firms should hold assets of comparable value, yet the scale of financial liabilities presented are worrying – in particular relative to bank equity and when considering the maturity of such liabilities are generally shorter than corresponding assets. The resolution requires a deleveraging of the financial sector that carries inherent risks of collapsing asset prices, fire sales of securities, and a credit crunch – all of which happened in 2007/08. (Storm and Naastepad 2015: 9)

Equally, regression analysis of household debts holds no greater association between growth and household debts in the pre-crisis phase. A 1 point increase in household debt may result in a 0.25 point increase in GDP. Increasing levels of household debt resulted in higher spending, through loosening household liquidity constraints indirectly since credit was being used to increase asset prices and lead to wealth gains. (Barba and Pivetti 2008) Thus, on average 27% of economic growth can be derived from household debt. (Chmelar 2013) These proportions are higher in Italy, at 48%, and Portugal, 74%, for example; compared to Greece, which was 24%. On the other hand, Germany deleveraged debt, and this can be attributed to restrained domestic demand and slower growth from 2000-07. (Storm and Naastepad 2015c)

Deeper elaboration on the role of household debt is necessary, since household debt was a central catalyst of increasing house prices, which through cumulative causation, enabled households to hold more debt. Figure 3 demonstrates the correlation between household debt and increases in real home price. There is a noticeable positive correlation, indicated by the strong upward regression and is statistically significant. Storm and Naastepad apply an estimated coefficient, of 21 percentage points, to the average increase in household debt in the Eurozone that provides an estimated real home price increase of 30.9%, which is close to the actual increase of 28.3%. Equally, this estimation can provide a full explanation of house prices in Denmark and Germany while explaining between 60-85% of real home price increase in Finland, Italy, Spain, Sweden and UK. This indicates that there is a strong link between household debt and real house prices. The work also investigates the correlation between government debt and house prices, as well financial-sector debt and house prices. Government debt is not found to be correlated to higher real house prices; whilst although bank debts do exhibit a weak correlation there are no inferences available on this evidence. (Storm and Naastepad 2015a: 11) Therefore, derived from this is the relationship between higher house prices and higher levels of GDP growth. Whilst higher house prices allows consumers to hold more debt, it is therefore logical that this will increase consumption – which also includes pushing house prices up further. This resulted in an unsustainable private leverage boom that was particularly prevalent in Ireland and Spain (IMF 2012).

Figure 6: Household debt relationship with house prices



Source: Storm and Naastepad (2015) OLS regression estimations based on Eurostat Data and OECD data on real house prices. Note: The regression line is based on the following OLS regression: Δ real home price = + 1.44 Δ Hh Debt (5.95)*** = 0.69; F = 35.4***; n = 14.

Based on the analysis it would appear the emphasis of fiscal profligacy and sovereign debt as the cause of the crisis distorts reality. Households, corporations and banks all accumulatively collected substantial levels of debt since the inception of the Eurozone. Household debt in the Eurozone, for instance, ranged from 139% of GDP in the Netherlands to a more modest level of 57% of HDP in Belgium, averaging at 79% of GDP across the Eurozone. Financial corporations show even more striking figures, with a fairly minimal debt of 238% of GDP in Greece or 234% in Italy as opposed to 1856% of GDP in Ireland. This represents the 'hyper-financialization' that has developed in certain areas (Ibid.) Corporate debt in Greece and Italy was equally comparatively low compared to the Eurozone average of 238%. Given these extraordinary levels of debt, all financial sectors have been deleveraging, which means reducing economic activity and is exacerbating the level of recession. Compounding this by restraining public spending and attempting to drive down levels of sovereign debt is counterintuitive. Recent research has shed light on the effect of debt levels and presents evidence that private debt accumulation has far worse effects than that of public. Cecchetti, Mohanty and Zampoli (2011) demonstrate that rising levels of private debt restricts economic growth and more recently Bornhorst and Ruiz-Arranz (2013) have argued that high private debt is more damaging to economic growth than high levels of public debt.

Table 2: Debts (per cent of GDP), 2012

	Households	Non-Financial Corporations	Financial Corporations	Government	Total
Belgium	57	354	363	106	880
Germany	59	152	401	89	699
Ireland	113	444	1.856	128	2.540
Greece	71	117	238	166	592
Spain	88	228	281	93	690
France	68	226	363	109	766
Italy	51	182	234	142	610
Netherlands	139	245	1.018	83	1.485
Austria	55	197	295	86	632
Portugal	101	263	335	129	827
Finland	70	206	362	64	702
Eurozone-11 average	*79*	*238*	*522*	*109*	*948*
Denmark	149	203	624	59	1.035
Sweden	88	340	348	49	825
United Kingdom	99	240	1.192	102	1.633
Average (all countries)	86	242	565	100	994

Source: Eurostat and AMECO

Given these observations it becomes ever clearer that the crisis itself was not strictly a fiscal crisis. Economic literature also notices this circumstance: Cimadomo (2008) emphasised that OECD countries followed pro-cyclical fiscal policies 1994-2006. Von Hagen and Wyplosz (2008) illustrated that for EU-27, policy related to the specific arrangements of the European Union and to the Stability and Growth pact resulted in noticeable improvements in the fiscal position; whilst national elections would worsen the budget balance. While Balassone et al. (2008) utilized a dynamic panel of 14 EU countries to show an asymmetrical response of the budget balance to the economic cycle of the nation, which was particularly induced by discretionary fiscal measures, from the perspective of public expenditures. Therefore, there must be further factors at play since it begs the question that if all countries followed a similar pattern then why was it that the PIIGS were attacked?

A final note of import is that not only does this evidence negate the claim of fiscal profligacy, but it should be considered that this was actually the point of the Eurozone in the first instance. Underlying the creation of the Euro was the aim that it would facilitate capital flows to the periphery and aid in development. In the initial years of its creation the Eurozone may be perceived as the 'vanguard of the financial globalisation boom, with the elimination of intra-area currency risk additionally stimulating international financial integration, over and above the global factors that were at work across the set of advanced economies' (Lane 2013: 2). There is a large literature on the macroeconomic and financial impact of capital flows and the counterpart of current account imbalances. It is assumed that such capital flows and accompanying imbalances should have a welfare-enhancing role by facilitating intertemporal smoothing and promoting an international efficient allocation of capital (Lane 2013: 2). This logic was fuelled by optimism that underlined European integration and reinforced by neoclassical theory – that suggests liberalized financial markets should allow for international consumption smoothing, risk sharing, and an efficient allocation of capital; whilst emerging markets should receive a high proportion of investment and lower savings, due to higher rates of return and encouraging growth prospects (Herrmann and Kleinert 2014: 1-4). Even current vocal orthodox critics of the crisis citing a degree of fiscal profligacy as a central causation, such as Hans-Werner Sinn, admittedly were over optimistic on this idea of an international redistribution of funds as being a promising aspect of EMU creation. (Sinn 1994: 95) The political turmoil that has resulted as a consequence has gone far beyond the expectations of some academics, such as Sinn, who previously advocated this logic.

The problem comes in that it is not easy to reallocate capital as suggested by neoclassical theory to exploit the differences in marginal productivity. The reality is that there is significant political distortions and turmoil as a result, primarily due to unemployment as a consequence of such reallocation. In fact, there is evidence indicating this precise issue: Caselli and Freyer (2006) found that marginal product of capital (MPK) did not differ substantially across nations, and thus there is no prima facie support to the view that international credit functions will prevent capital flows from rich to poor countries. It was found that lower capital ratios in such countries are attributable to lower endowments of complementary factors and consequently efficiency levels suffer, whilst there will be lower prices of consumption goods relative to capital goods. The result is that such flows are likely to not significantly increase capital stock or income in these countries unless accompanied by financial repression and an effective restriction on capital outflows. (Lucas 1990; Caselli and Freyer 2006)

2.43 Capital Flows as the cause?

The above critique has highlighted the many flaws with focussing strictly on fiscal profligacy as the fundamental cause of the crisis and has become widely accepted in academia. Therefore, a second more prominent strand of thought looks at capital flows in the Eurozone. Holsinki et al. (2012) demonstrate that capital flows in the period 1992-2007 from Northern member states to Southern states led to an accumulation of imbalances that cannot be explained by fundamentals such as differentials in productivity growth. De Grauwe (2011) notes that monetary unions are particularly susceptible to crises when capital flow stops due to the lack of availability to inflationary financing. Furthermore, Krugman (2012) feels 'the roots of the euro crisis lie not in government profligacy but in huge capital flows from the core (mainly Germany) to the periphery during the good years. These capital flows fuelled a peripheral boom, and sharply rising wages and prices in the [recipient] countries relative to Germany.'

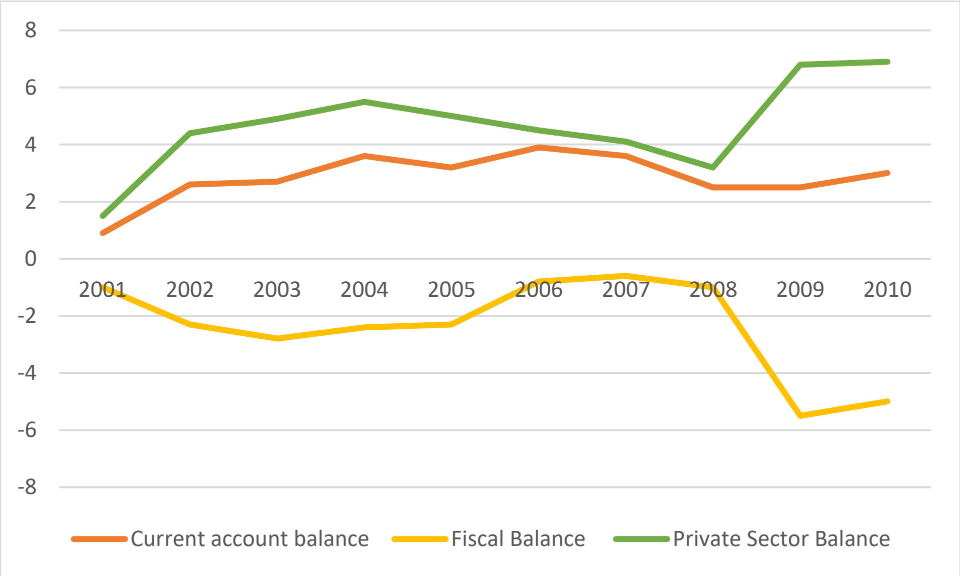
The logic of capital flows as the cause of the crisis is drawn from the dismissal of fiscal profligacy, highlighting the fact that the "crisis countries" all had the largest current account deficits in the Eurozone and so it is a balance-of-payments crisis. The strand of thought of a balance-of-payments crisis with the associated risk of large external deficits has been prominent in the literature (Waysand et al. 2010; Gros 2011; Gros and Alcidi 2011; Schmitz and von Hagen 2011;; De Grauwe and Ji 2013).

Directly, the term refers to capital volatility encouraged by excessive borrowing following the introduction of the single currency and/or financial contagion and spillovers during the euro-zone crisis, which are largely highlighted by current account imbalances. This could be closely linked to Minsky's (1982) financial fragility hypothesis, that the inherent boom-bust cycles of financial markets is due to euphoric expectations – a circumstance particularly relevant to EMU creation that may be perceived as a trigger for such euphoric expectations and resulted in significant speculative capital flows (Ahearne et al. 2008). This suggestion infers the competitiveness position of the periphery as central to the current problems that meant current account deficits had to be financed by borrowing (Obstfeld and Rogoff 2009, Giavazzi and Spaventa 2011). It has become commonly argued that there is a 'recognition that the Greek crisis isn't just fiscal' (Wihlborg et al. 2010: 76). In simple terms, the argument claims the overall cause of the crisis was private sector debt development: pushed from the core by stagnating economies – predominantly Germany – by low returns and a hyper-inflated self-serving banking sector, or "banking glut;" (Atoyan et al. 2012) whilst it was also pulled by the booming periphery economies, through cheap credit and high speculative returns on investment. It is also noted that these investments undertaken in the periphery were not focussed on "upgrading" activities or expanding export capabilities (Storm 2015).

There is strong econometric evidence to suggest that current account deficits developed in the periphery prior to increases in RULC (Gabrisch and Staehr 2014; Gaulier and Vicard 2012). The unsustainable credit boom, enabled by European monetary and financial integration, resulted in in rapidly increasing imports in the period 2003-2007 and consequently wages and RULC. This process was initiated by the unusually low long-term interest rates (Lane 2012). Kool (2005) and Arnold (2006) argue, with econometric backing, that the ECB places significant weight on the economic situation of Germany and France. The low interest rates were a response to stagnating members in the core, threatened by low growth, inflation, and high levels of unemployment.

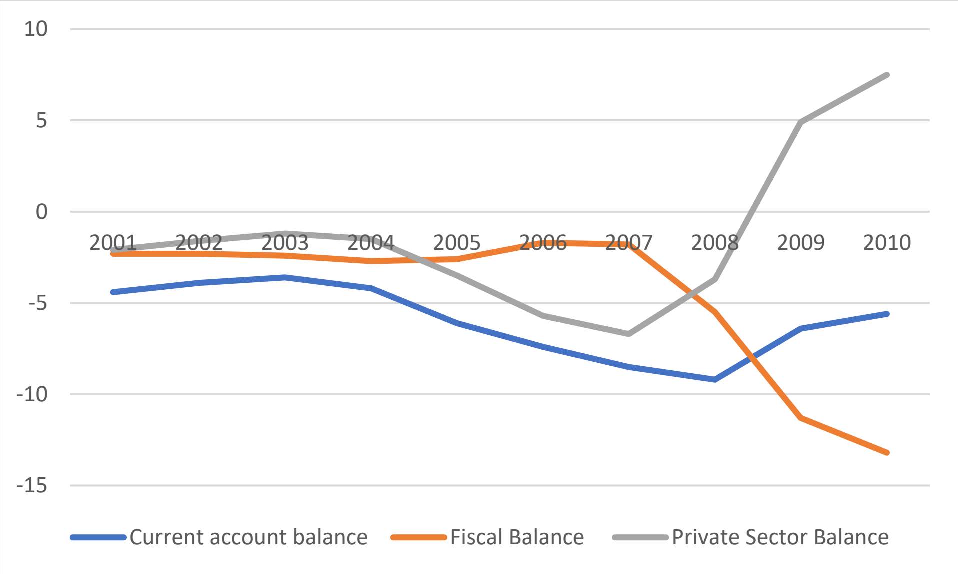
Large current account deficits and the accumulation of substantial debt, particularly external debt, were clearly a central problem. The existence and development of current account deficits signal an issue of competitiveness, even if capital flows increased vastly prior, which inherently may not mean competitiveness issues ex ante, these in turn increased prices and wages that will impact competitiveness ex post. Even further, as Lane (2006) argues, as prices rose due to these inflows, real interest rates fell in these countries relative to the rest of the Eurozone – which in turn led to greater levels of borrowing.

Figure 6: Average Core Eurozone States Balances



Source: On the basis of World Development Indicators and Global Finance (2011) and Eurostat (2011)

Figure 7: Average Non-Core Eurozone States Balances



Source: On the basis of World Development Indicators and Global Finance (2011) and Eurostat (2011)

To reiterate the earlier argument, as illustrated in Figures x1 and x2, fiscal balances in non-core states (GIIPS) were relatively similar to that of core member states up until the crisis. Equally, the private sector balance is reflective of the sudden stops in capital flows – that will be evaluated in greater detail in the next section. However, there are clear divergences in the current account between core and non-core members. The Greek current account deficit increased nearly 6 fold in 10 years, 1998-2008, from -2.6% of GDP to -14.4%; from the time it joined the Euro Greece's deficit over doubled. Italy underwent a similar shift, although less extreme, from running a surplus of 2.7% in 1997 to its worst deficit of -2.8% in 2008. Germany, on the other hand, exhibits the opposite moving from a slight deficit to a pronounced surplus: -1.8% in 2000, to 7.2% in 2007. There is a definitive divide between nations in Northern European states, with the exception of France, running surpluses; and Southern states that struggled with deficits. The imbalances were not overly severe prior to the crisis, yet following the crisis these deteriorated rapidly. From 2007 to June 2011, GIPS (Greece, Ireland, Portugal, and Spain) accumulated balance of payment deficits of 327 billion euros; again, Germany countered this with balance of payment surpluses of 337 billion over the same period (Sinn 2012: 4).

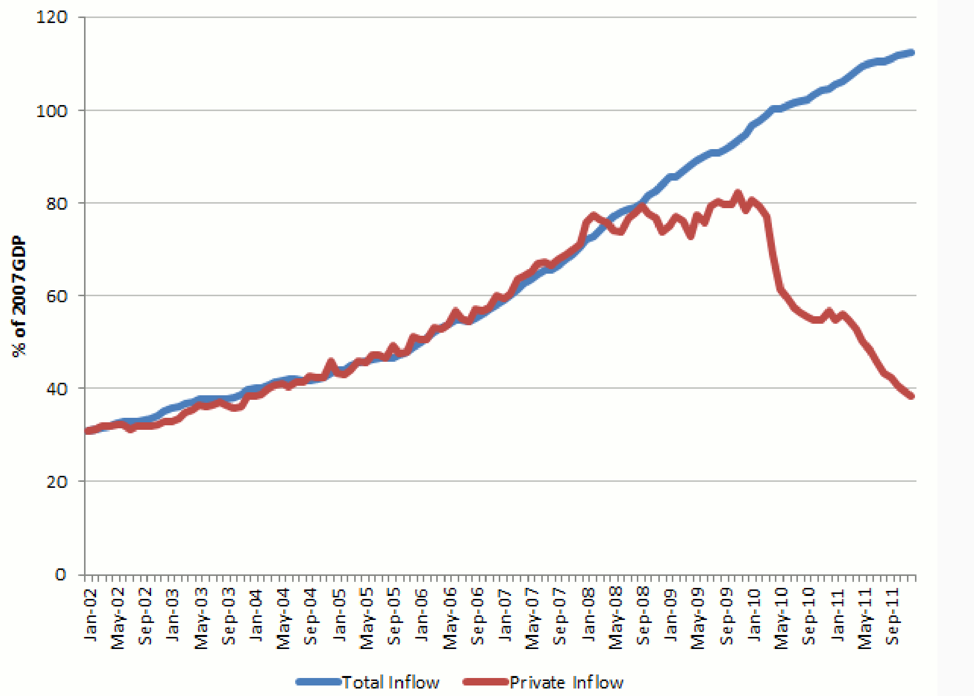
The explanation for the rapid deterioration is relatively simple, it is derived from sudden stops in capital flows following the onset of the crisis. Both history and evidence indicates that in a world of high capital mobility, in the face of a crisis, capital inflows may suddenly stop and even capital flight could occur (Calvo et al. 2004). Aforementioned, one of the primary aims of EMU was to increase financial market integration and thus increase investment opportunities in the Eurozone. This should encourage capital to flow from areas of low returns, to those with high growth prospects and encouraging rates of return – which is exactly what occurred. There was a stark difference, however, in the capital flows between Greece and Italy, and the rest of the crisis countries – with Greece and Italy witnessing predominantly public inflows; as opposed to Spain and Portugal for instance where it was almost entirely private.

Private capital flows as credit over banks and insurance systems as foreign asset purchases and as foreign direct investment; public capital flows as intergovernmental loans, but predominantly it has flowed through the stock of refinancing credit within the Eurosystem (Sinn 2011). The basic mechanism began with the introduction of the euro, encouraging private capital to flow from the low returns of Germany and other core countries, to the much higher booming rates in the periphery. There are two subtexts to this perception, either firstly this was initiated by a deflationary policy by Schroders "Agenda 2010" reform, which lowered German real unit labour costs and initiated large scale exports to the periphery. During the period 1995 to 2010, Germany became 21% cheaper, trade weighted, relative to its trading partners. (Sinn 2011) Consequently, Germany's private sector accumulated substantial claims on the periphery's debt that were inconsequential until the crisis erupted.

(Terzi 2015 4) The second distinction refers to financial flows, whereby German capital flowed to the far higher returns that the periphery had to offer, which under-priced the much higher credit risk, particularly periphery debt. This occurred to due market failure in assessing financial risk combined with bank regulators willingness to hold government bonds. As demonstrated above, due to euro convergence there was a reduction in depreciation risk in the periphery making risk premiums reduce accordingly.

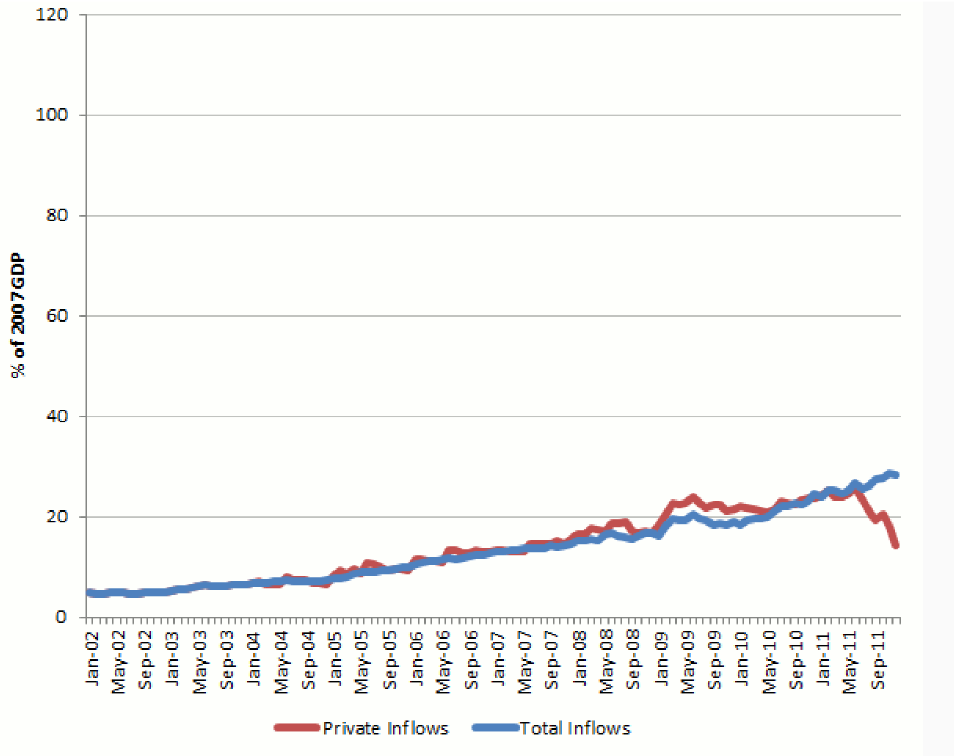
The reality is somewhere in the middle, and is irrespective of the fact that ultimately capital flows played a fundamental role in increasing instability. As Sinn (2015) argues: it does not matter how credit enters the economy, ultimately cheap foreign credit allowed wage increases above productivity that drove up relative prices and deprived competitiveness. This was not a problem whilst investors continue to finance these current account deficits, the problem erupted when the willingness faded. The problem was not necessarily the expansion of capital flows, since this was indicative of financial integration, but when the flows stopped. The lack of a banking union and creditable deposit mechanism amplified the negative consequences of capital flight.

Figure 8: Cumulated private capital inflows, 2001-11 – Greece Cumulative Capital Inflow (from IIP debt 2001)



Source: OECD; Merler and Pisani-Ferry 2012

Figure 9: Cumulated private capital inflows, 2001-11 – Italy Cumulative Capital Inflow (from IIP debt 2001)



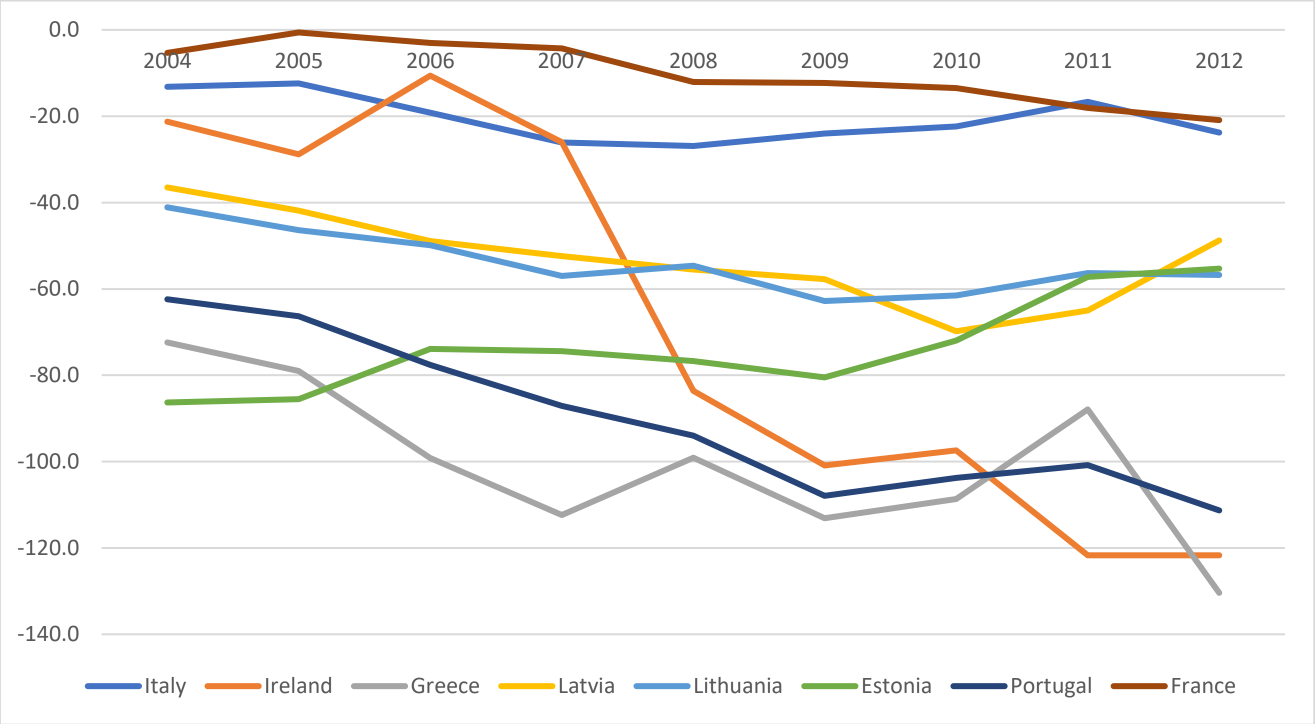
Source: OECD; Merler and Pisani-Ferry 2012

The above graphs indicate the sudden stops in capital flows that occurred following the onset of the crisis. The scale was far more severe in Greece than Italy given the nature of the crisis in Greece, also Ireland and Portugal had similar reductions. There is, however, a clear replacement of private flows with public. This substitution, particularly through Eurosystem financing, has ensured a necessary buffer against the lack of private liquidity and ensured at least a relative maintenance of current account deficits since capital markets are unwilling to finance them. This reliance on Eurosystem financing is indicative of the weak Eurozone banking system, which rests firmly on central bank financing. (Buiter et al. 2011) Banks within the crisis countries tended to focus on central bank refinancing that reflects the divergence of intra-Eurosystem net balances and uneven distribution of central bank liquidity. (Pisani-Ferry and Merler 2012) This is why economists, such as Sinn (2012), argue that the crisis countries were in equilibria prior to the crisis. Before the crisis, these countries were able to finance their deficits either through asset sales, or through borrowing abroad. Yet, after the crisis hit so the credit risk of lending to these nations dramatically rose, which meant these countries then resorted to favouring financing from their central banks.

This substitution of inflows is important since it reflects the interrelated underlying issue of competitiveness that has plagued the periphery. For instance, in 2010 despite stringent austerity, Greece maintained a current-account deficit of 10.5% of GDP, whilst its aggregate consumption was 17% higher than its net national income. (Corsetti et al. 2011; Sinn 2011) This was made possible through the public inflows, which continued and increased following the stop of private capital.

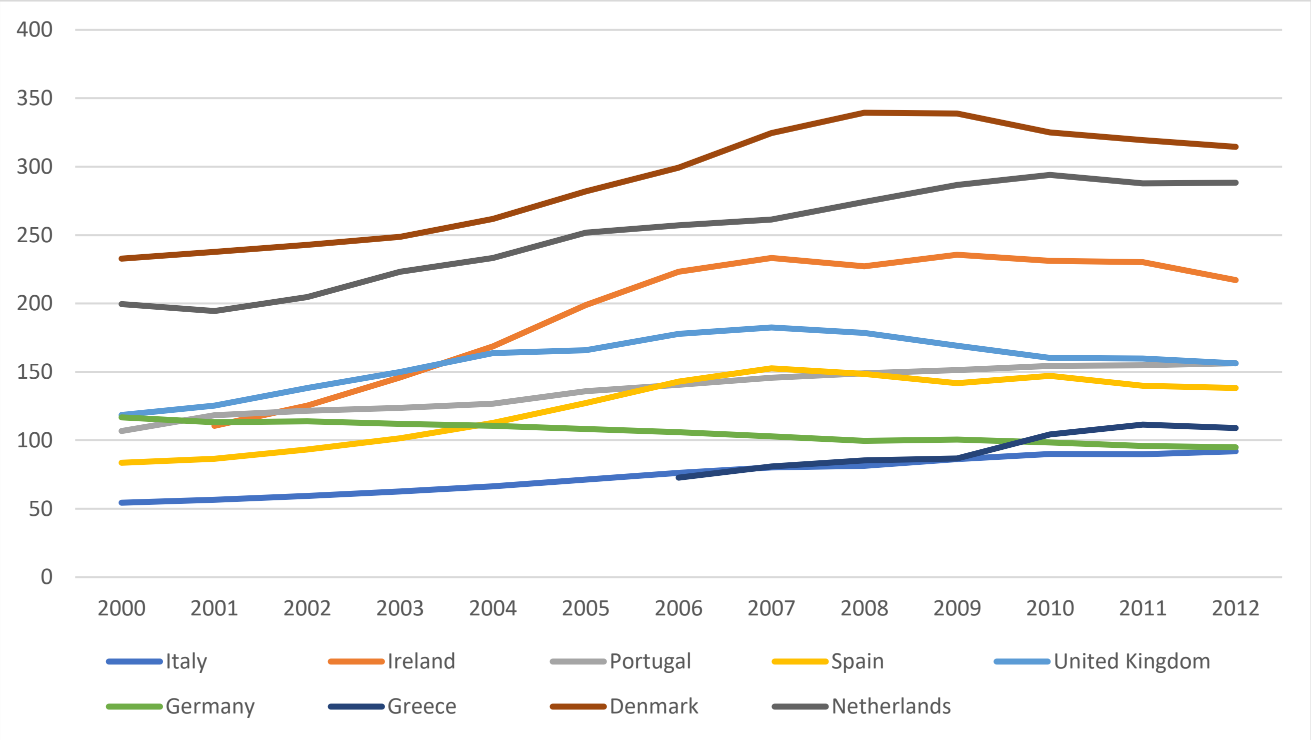
This is where the heart of the argument lies, it is intrinsically linked to the idea that the peripheral nations lacked competitiveness. Divergences in cost competitiveness, as it is most often defined (e.g. Trichet 2011; Draghi 2012) under a fixed exchange rate, resulted in growing current account deficits, increasing levels of foreign debt, and ultimately a restriction of fiscal policy space when the crisis hit. There is, therefore, a definitive mismanagement of fiscal policy on behalf of the states concerned. This brings into question the role of domestic politics in the process and how societal ideas and interests could have influenced the development of the crisis through influencing policy decisions.

Figure 10: Net Financial Balances



Source: Eurostat

Figure 11:Household debt, Total, % of net disposable income



Source: OECD

However, the logic of capital flows as the key cause of the crisis does not hold up under empirical scrutiny. The argument would assume that Italy should have experienced significant financial inflows and engaged in excessive borrowing in the development of the crisis. In fact, Italy were amongst the smallest net financial balances in the Eurozone; whilst also experienced one of lowest ratios of household loans-to- gross disposable incomes of all member states. Greece, on the other hand, had a far worse net financial balance, but, also had one of the lower ratios of household loans-to-gross disposable incomes.

A secondary way to analyse the role of capital flows in the financial crisis is to look at whether there were any contagion or spillover effects from negative financial and economic shocks in other countries. It is definitely possible that these factors could have played a role; however, Lombardi (2015) demonstrates that the latest econometric evidence negates this perception also, and points towards a more prominent role for weak fundamentals and general risk aversion in the Eurozone that negatively affected sovereign yield spreads as opposed to strictly spillover or contagion.

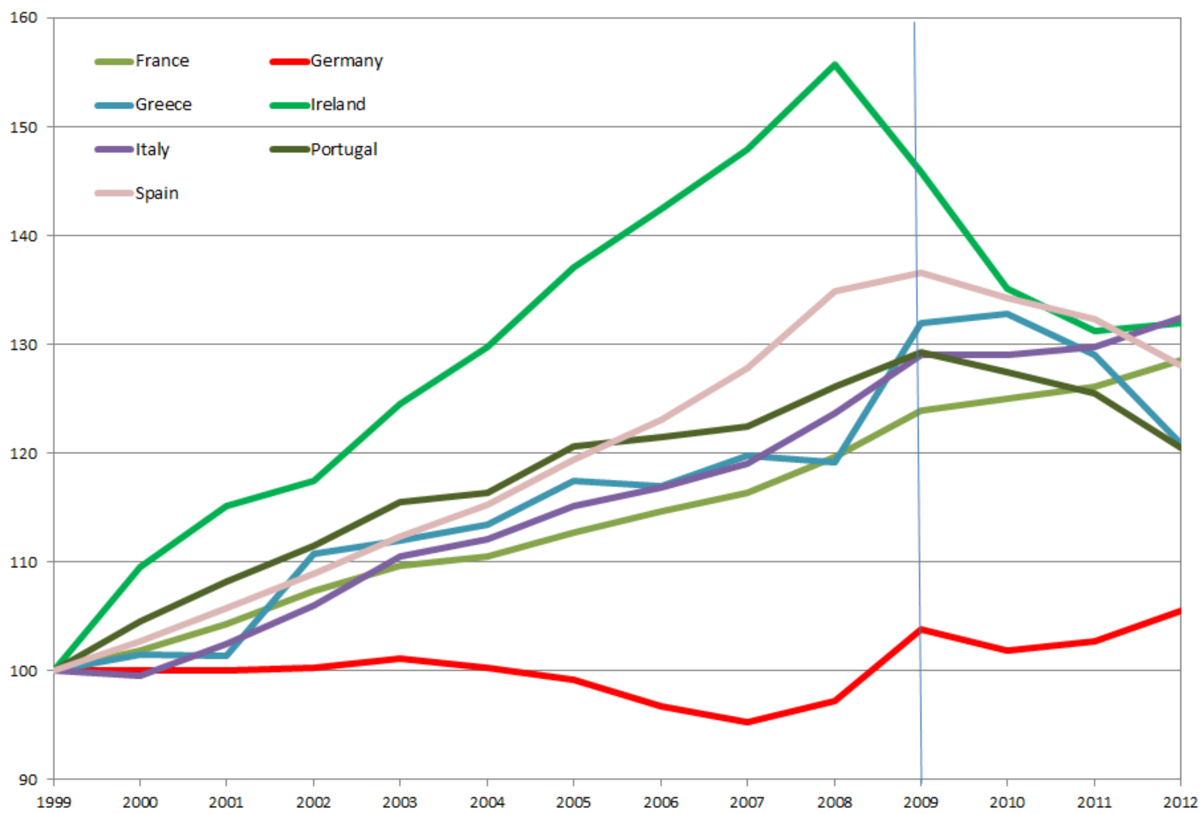
2.43 Competitiveness?

Given the evidence presented, it is necessary to analyse how these capital flows resulted in declining competitiveness in greater detail. While excessive borrowing or fiscal profligacy may not have been the cause of the crisis, the Eurozone did enable countries to artificially "inflate" living standards, wages, and welfare systems to unsustainable levels. (Smaghi 2013; Sinn 2015) The problem comes when these expectations cannot be reinforced by increases in competitiveness, and competitiveness, it is argued, is 'the true problem.' (Sinn 2013: 9)

The traditional perception when considering competitiveness is cost competitiveness, highlighted by unit labour cost – for instance Trichet (2011) defines competitiveness as 'revealed by developments in unit labour cost,' or Draghi (2012) who argues 'a useful way to measure excessive imbalances is to look at unit labour costs, as these reflect developments in both productivity and labour costs.'

The narrative is that following the introduction of the euro, an unsustainable boom of borrowing and demand developed that propelled inflation upward and raised prices in the affected countries. The capital flows are reflected by current account deficits, emphasising losses in competitiveness, due to rising wages that is inconsistent with productivity growth. The escalation of wages could be due to distortions in the labour market, or rapid inflation of public sector wages. A regression analysis by Shambaugh across a number of variables on the cause of the crisis finds that current account deficits is the variable most consistently and closely related to the spreads, arguing: 'it has high statistical significance, has the most explanatory power, and retains significance even when other variables are included with it in the regression.' (Shambaugh 2012: 179) Current account deficits are reflective of weak growth, competitiveness issues, and problems in the private sector; while Greece may have had fiscal problems – to an extent – the overall crisis of the Eurozone should not be perceived in this light. Dadush et al. (2010) effectively summarize this position: 'The Eurozone crisis is at its root not a fiscal or banking crisis, but a crisis of competitiveness hatched over about 15 years, and reflected in large differences in labour cost, export performance, and balance of payments between the periphery and the core, notably Germany.'

Figure 12: Real Unit Labour Cost (Index 100=1999)



Source: OECD.Stat

The above graph represents the divergences in real unit labour costs against the benchmark of Germany. This is a clear indication of divergences that could have significantly contributed to imbalances that arose following the creation of the Euro. Equally, economists such as Draghi (2012) have argued that this has been the cause of the crisis: since the inception of the

Eurozone, ‘unit labour costs have increased by 28% in deficit countries, 2.5 times as much as in surplus countries.’ More specifically, for instance, Italy underwent a real appreciation due to unit labour cost increasing 23 percentage points against its trading partners; while Germany saw a real depreciation with unit labour costs falling 9.7 percentage points. (Manasse 2013) Similarly, Sinn (2014: 3) summarizes this since ‘countries in the southern and western periphery lost their competitiveness simply by becoming too expensive.’

Even this was nothing new, in the years prior to EMU creation labour costs had been escalating noticeably. Between 1970 and 1999 unit labour costs in Germany grew by a factor of 2.5 to 3. However, in the same 28 years the peripheral nations struggled to contain wage levels, with labour costs growing by 12 in Italy, 14 in Spain, 35 in Portugal and 55 in Greece. Until these countries entered the Eurozone this was not a particular problem, currency devaluation could be used to either restore or maintain competitiveness levels. Yet, joining the Euro removed this policy options – self-evidently – and thus the hope was that these countries would adapt and slow down unit labour cost growth.

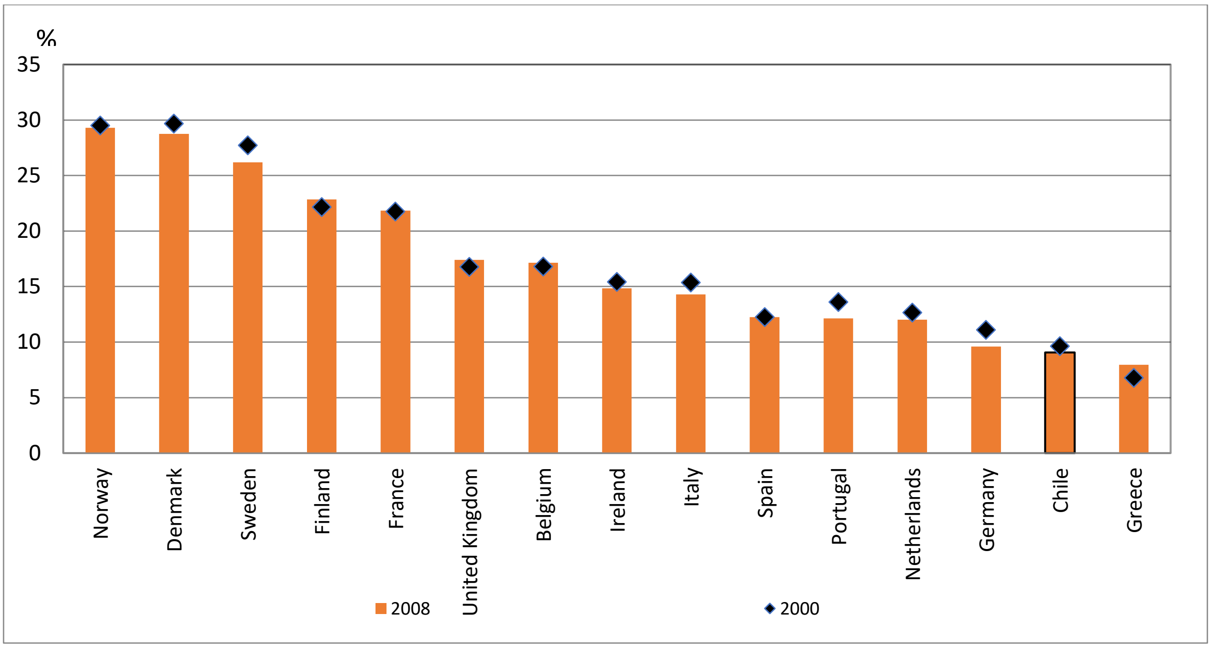
It is this loss in competitiveness that is suggested increased the exposure of the periphery to the global financial crisis. Rising current account deficits are seen to be linked to this trend, Germany, for example, possessed a slight deficit in 1997 at -0.4% of GDP; however, by 2007 this had developed into a 7.2% surplus. Similarly, Italy began with a 2.7% surplus in 1997 but a decade later had reversed this to -2.3% deficit. Greece had a more dramatic decline, increasing its deficit from -3.8% in 1997 to -14% in 2007. Portugal, Ireland, and Spain all had comparable declines in the current account. Therefore, these deteriorating current accounts are inherently linked to the rapid escalation in foreign indebtedness in order to finance these deficits, whilst by nature reducing fiscal policy latitude.

The essence of the argument can be summarized as growing real unit labour cost was derived from a mixture of rapidly increasing real wages along with suppressed productivity. The peripheral nations were growing rapidly having joined the Eurozone, the single currency provided low real interest rates and high returns, combined with exacerbated confidence in these nations that led to a surge in capital flows from the capital-abundant core to the capital-scarce periphery. This process of rapid wage growth outstripping productivity increases was reinforced by their rigid labour markets and ultimately lead to declining international competitiveness and inevitable development of substantial current account imbalances.

Despite strong levels of growth in the periphery, productivity followed a downward trend throughout the time period. It was largely surpassed in the early years of EMU creation by a noticeable spike in core productivity. Equally, there does not appear to be a significant boost in domestic demand derived from increases in real wages. Real wages did increase noticeably, yet the most noticeable consequence of this development was stabilizing the downward trend of labour income proportional to nominal GDP. Labour income share was also declining the core, yet this was more of an effect of active wage restraint, particularly in Germany (Sanchez and Varoudakis 2013: 8).

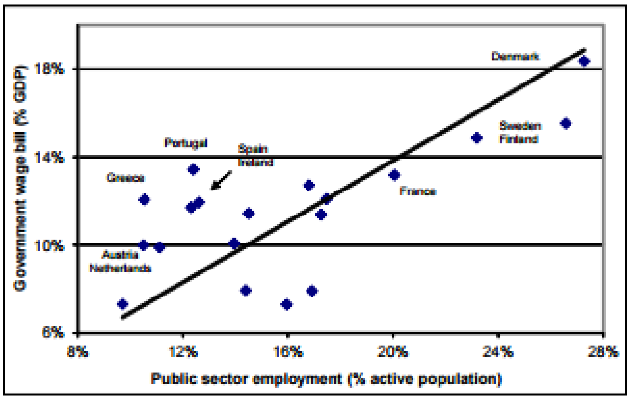
The best correlation may be seen with real interest rate appreciation in the periphery and the decline in current account. 2000-2008 real exchange rate effectively appreciated 21% in the periphery, compared to the more modest 10% in the core, which could have been a primary cause of declining competitiveness. The divergence in real effective interest rate is reflective of inflation levels. This was a particular problem in Italy, for example, that although the nation did not go through a credit bubble, it did have particular problems with inflation. Sinn (2015) notes that due to this, the GDP deflator increased by 25% relative to rest of Eurozone – which undoubtedly may be the primary reason for competitiveness decline. Greece equally had inflation, but Sinn argues this was self-inflicted. Public capital flows increased dramatically that were used to hire public workers and increase public sector wages. The inevitability of this was price increases and rapidly increasing relative inflation levels that outstripped productivity and thus reduced competitiveness.

Figure 13: Employment in general government and public corporations

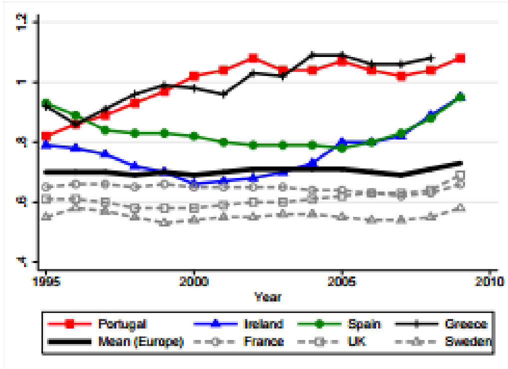


Source: OECD

Figures 14 and 15: Government Wage Bill and Employment



(a) Government wage bill and employment in 2009



(b) Ratio of gov. wage bill (%GDP) over public sector employment (% of active population)

Source: Gomes (2014), utilizing data from OECD, EU Commission

The figures demonstrate the significant level of spending on wages relative to public sector employment. Whilst Greece has by far the lowest public sector employment, over the period studied it had the largest proportional increase in public sector employment levels, noting that the majority of nations actually decreased public sector employment. Similarly, Greece – and other “crisis countries” with the exception of Italy – were significantly over spending on public sector wages relative to the employment level. Greece was spending 12.5% GDP on government wages with only a public sector employment level of 11%; however France were spending nearly an identical level of GDP, at 13%, but had over 20% employment.

This, again, relates strongly to the varieties of capitalism literature that was outlined earlier in the work. Central to the circumstances of the crisis were the political economies in which they developed and the varieties of capitalism literature captures well the problems that developed through highlighting how they may have been shaped by national political economies (Hall 2014: 1226). Boltho and Carlin (2012) argue that inherent institutional asymmetries in the political economies of member states were the source of serious problems. They exemplify this through the different approaches to fiscal policy, which resulted in the above situation of unit labour cost divergence. The North upheld a level of fiscal austerity that contributed to restrained wages and enhanced their policy of export-orientated growth. This is due to their characterisation of coordinated market economies, operating with wage coordination, sophisticated systems of vocational training, sufficient inter-firm relations to enable effective collaborative development and research, and intra-firm competition to ensure continual innovation and quality control (Hall 2014: 1226). The South, on the other hand, did not have such restraint as demonstrated by the above analysis. To stylize the South, they are commonly described as mixed-market economies: wage bargaining is often difficult, aside from occasional social pacts, since trade unions are powerful but also compete for the favour of the workforce and right to negotiate wage bargains (Hancke 2013); Employer associations are occasionally coordinated but nonetheless lack the institutional capacity of their Northern counterparts and are inadequately equipped to ensure effective vocational training, consequently, this has contributed to large portions of the workforce being lesser skilled whilst also limiting continuous innovation - thus, firms focus more on developing an advantage of low-cost labour. Notably, these characteristics are found to be shared by the political economies of Greece, Italy, Spain, and Portugal. (Iversen and Soskice 2014)

A meaningful example of this differentiation in varieties of capitalism can be drawn from the actions taken from the long-term decline in real interest rates that offered a painless reduction in government debt. The North utilized this opportunity far more effectively than the South, as can be illustrated by a noticeable comparison between Italy and Belgium. At the accession of the Euro, public-debt ratios were comparable, 121% of GDP in Belgium compared to 128% in Italy; however, by 2008 debt had fallen far more in Belgium, 91%, as opposed to Italy, 113%, in spite of the fact that long-term interest rates were far lower in Italy. In a similar light, Greek and Portuguese debt actually rose over the same period. As had been argued previously, lower interest rates were seen as an opportunity to borrow more, in Greece and Italy these capital flows were predominantly public as opposed to other periphery nations that it was almost entirely private.

This is an argument strongly put forward by Sinn (2015). The Interest advantage obtained by Italy if saved by the government it would have meant the debt-to-GDP would be 0 in nominal terms; had it saved at least the real advantage, debt-to-GDP ratio would be 60%. However, rather than saving this advantage the government consumed it to increase primary balance. The advantage was as big as the value added tax of the whole country. This premise goes to show how the political economy of countries has the ability to play a pivotal role in development of the crisis and equally, by logical assumption, the resolution. Underlining these decisions the work hypothesises that domestic considerations played a central role and that is what the work seeks to understand.

However, unit labour cost, on its own, does not provide a sufficient explanation of the divergences within the Eurozone and the causation of the crisis. There are both empirical and analytical problems with this mainstream perception that increases in ULC resulted in declining competitiveness. On a basic empirical level, there is no statistically important correlation between pre-crisis unit labour costs and subsequent levels of growth following the crisis. Essentially underpinning this competitiveness position there is a qualitative issue in defining competitiveness. In economics it has been widely recognized there is an inadequate and lack of agreed definition of international competitiveness. (Wyplosz 2013; Storm and Naastepad 2015a). This is compounded by the fact that traditional measures of competitiveness, for instance relative unit labour cost or current account balances, are notoriously weak predictors of performance (Gros 2011). To demonstrate this, work by Storm and Naastepad (2015a; 2015b) indicates that elasticities of export and import demand of

Germany, Greece, Italy, Portugal and Spain are statistically unimportant and close to zero. Furthermore, Lane (2001), among others, argue this is due to the limited scope of the definition – ignoring that competitiveness captures far more than just cost competitiveness, but similarly technological or structural capabilities.

This theoretical prejudice leads to a number of conceptual problems. The foremost of which is that the two central variables of competitiveness, wages and productivity, are inherently interrelated. Productivity is endogenous and responds to the wage rate, for instance if the economy suffers substantial wage increases then the response may be to minimize labour and leave any sectors that are particularly susceptible to labour-cost competition. The consequence would be a misleading rise in productivity that masks the underlying truth of rising ULC.

Unit labour cost as an indicator is a partisan concept: stressing labour but not capital (Mavroudeas and Paitaridis 2014: 23). Ignoring structural competitiveness, price competitiveness still does not solely depend on labour cost but also recognizes capital profit margin. (Felipe and Kumar 2011). Orthodox economics regularly ignores this important aspect, merely equating competitiveness with labour costs. As evidence shows, ULC is related with wage share and thus income distribution between labour and capital. (Ibid) Due to this, as Storm and Naastepad strongly critique, orthodox economics inspired austerity measures result in a “race to the bottom” as wages are restrained in hope of restoring competitiveness.

There are also significant empirical problems that are observed. A number of studies have highlighted that there is no simple, consistent correlation between ULC and competitiveness. Kaldor (1978) presents a comparison of ULC and market share growth for exports in 12 countries 1963-1975. His work demonstrates a positive relationship for a number of countries, the famous “Kaldor paradox.” Fagerberg (1988) followed the same study for the period 1978-94 and equally found the same results. A central conclusion of these studies is that competitiveness relies on more than costs but also needs to encapsulate structural characteristics.

Instead, other conclusions have been drawn by this work and by others. Firstly, the majority of goods and services imported into the Eurozone are ‘non-competing’ that are used either in manufacturing or in consumption, thus the demand is almost entirely determined by domestic income (Bussiere et al. 2011). Secondly, export performance is largely influenced by world income growth (European Commission 2010; Danninger and Joutz 2007). To highlight this, Germany exporting to fast-growing markets – in particular China – witnessed rapid export growth; while the peripheral nations, such as Greece or Italy, exported to slow-growing markets and their export performance reflected this (ECB 2009).The final key conclusion drawn is that changes in relative unit labour cost alone do not correlate to Eurozone current account imbalances.

Table 3: Unit Labour Costs and Gross Output Prices (mid-2000’s)

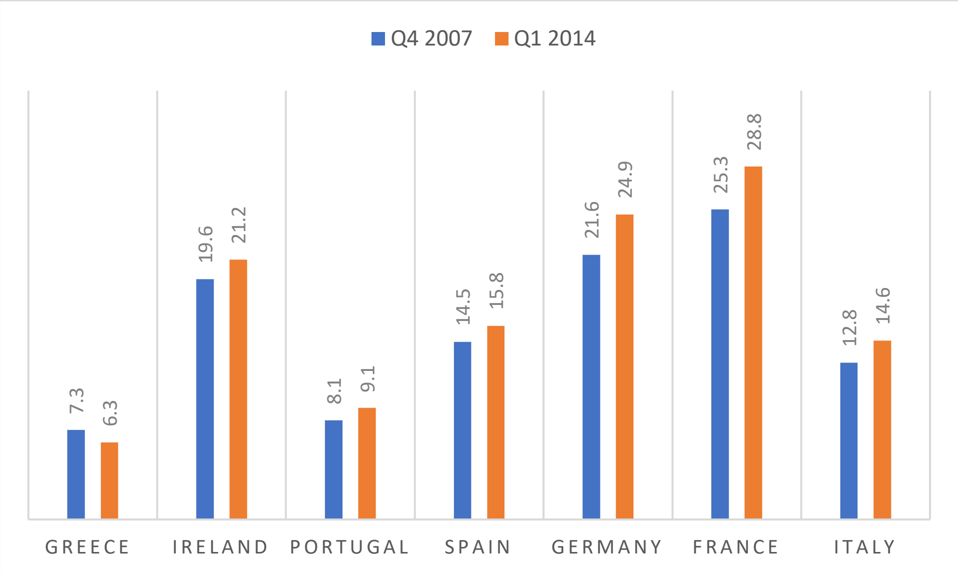
	Germany	Greece	Italy	Portugal	Spain
1. intermediate input costs per unit of output	0.67	0.68	0.74	0.73	0.73
2. unit labour costs: ULC	0.24	0.15	0.16	0.17	0.16
3. total unit variable cost: *vc* = 1 + 2	0.91	0.83	0.90	0.90	0.89
4. mark-up rate: □	0.10	0.21	0.11	0.11	0.12
5. gross output price: (1+ □)* *vc*	1.00	1.00	1.00	1.00	1.00
6. implied “pass-through” elasticity of a one-percentage point *decline* in ULC	0.26	0.18	0.18	0.19	0.18

Source: Storm and Naastepad (2015a, 2015b). Calculated using the OECD STAN Database input-output tables

This table above presented in Storm and Naastepad's analysis of the crisis indicates where this analysis has been derived from, detailing the composition of the gross output price for the manufacturing sectors in each of the countries. Unit labour cost is considered to only make up around 15-24% of the manufacturing output gross price; whilst intermediate costs are far more significant at 67-74% of total costs and the final profit mark-up of 10-12%. What the data indicates, is that if the manufacturing ULC increases one percentage point, gross output price will increase roughly 0.18-0.26% as these costs are passed onto price. To further illustrate this, in accordance with findings of Onaran and Galanis (2012) and Storm and Naastepad (2012) – if the pass-on is only half (which is a realistic assumption) given a relative price elasticity of demand of -1, this is consistent with a RULC elasticity of demand of -0.13. As such, RULC trade elasticities will be situated roughly one-fourth to one-eighth of the respective price elasticities (in absolute terms) (Storm and Naastepad 2015a 21).

Developments following the crisis support this case, with austerity measures exacerbating conditions in Greece particularly. The graph below shows hourly wage rates in the private sector, as can be seen wage rates in Greece have declined noticeably over the period – in fact the lowest in the Eurozone with the exception of Latvia or Lithuania. In comparison, most other countries in the Eurozone increased wages, including Italy. Corresponding wage changes to exports portrays an alarming picture. 2007-2014 nominal wages fell -15% yet nominal exports, as a percentage of GDP, increased less than 3%. Italy, for instance, had a comparable change in nominal exports despite wages actually rising nearly 15%.

Figure 15: Private Sector: Labour Compensation



Source: Eurostat's quarterly national account database (labour compensation divided by hours worked)

This actually negates the thinking and proposals of Juncker-Tusk-Dijsselbloem-Draghi, as part of the Informal European Council that produced "Preparing for Next Steps on Better Economic Governance in the Euro Area". Their logic rests on the idea that the crisis is one of competitiveness, caused by structural asymmetries and rigidities – particularly in labour markets – that lead to rising ULC. The theory they produce argues that ULC changes resulted in balance-of-payment issues and rising unemployment in the pre-crisis phase, and thus lowering wages is a prerequisite for recovery. However, the statistical correlation they produce is inaccurate and essentially irrelevant – demonstrated below extracted from Storm and Naastepad's critique of their policy suggestions.

The correlation is supposed to demonstrate the relationship between rising wages and unemployment levels. However, if Greece is removed from the equation the true regression line becomes horizontal, indicating no relationship. Also, if wage changes are compared to unemployment levels in the post-crisis stage alone then a negative correlation is observed. In fact, it is likely that substantial internal devaluation is exaggerating crisis conditions, reducing aggregate demand and output and subsequently increasing unemployment, a relationship that has been extensively observed (e.g. Storm and Naastepad 2015; Krugman 2015; Stockhammer and Sotiropoulos 2012; Stiglitz 2015).

Ultimately, wages are of lesser importance in this context – at least initially. Current account imbalances are a reflection of a growth in domestic demand due to capital flows. On the other side, Germany's surplus – and to a lesser extent the lagging exports of the periphery – can be attributed to a demand deficit in the North, relative to their trading partners' demand. This hypothesis of RULC has dominated policy discussions and even formed the heart of austerity measures imposed on Greece in particular.

2.45 True Crisis?

Competitiveness was clearly a problem, current account imbalances were significant throughout, however it was not RULC that should be considered but non-price competitiveness. The real problem is derived from significant divergences in labour productivity and technological differences between member states. Eichengreen (2010) labelled this situation as "bad external imbalances" that he argues occurs when capital flows fail to boost investment rates, as was particularly prevalent in Greece and Italy, or when these flows are predominant in the non-tradable sector where the productivity potential is limited.

"Bad external imbalances" may arise when capital inflows to less developed countries fail to boost investment rates (as in Greece and Portugal), or concentrate into non-tradable goods sectors (such as construction in Ireland and Spain) where the potential for productivity gains is limited. Foreign financed growth driven by non-tradables is likely to become unsustainable as it will not generate the exports needed to repay today's external debt' (Diaz Sanchez and Varoudakis 2013: 10).

These imbalances are generally driven by domestic distortions: bubble-driven asset booms, excessive budget deficits, and unrealistic expectations of future growth. (Eichengreen 2010: 2) intra-Euro capital flows have a tendency to flow to countries with higher domestic distortion and lower levels of reform. Compounding this finding is the fact that there was virtually no evidence of an increased investment rate in the periphery in the early EMU years; when investment did rise it was generally focussed in construction. (Blanchard and Giavazzi 2002) Secondly, periphery growth had not developed to rely on investment but is found to be based on employment growth. (Giavazzi and Spaventa 2010) Thirdly, as early as 2002 there is evidence of real exchange rate appreciation, a demonstration of differential inflation rates exceeding what could be explained by the Balassa-Samuelson effect. Lastly, savings in the periphery declined unexpectedly fast when considering the positive income effects of growth or the positive wealth effect of lower interest rates.

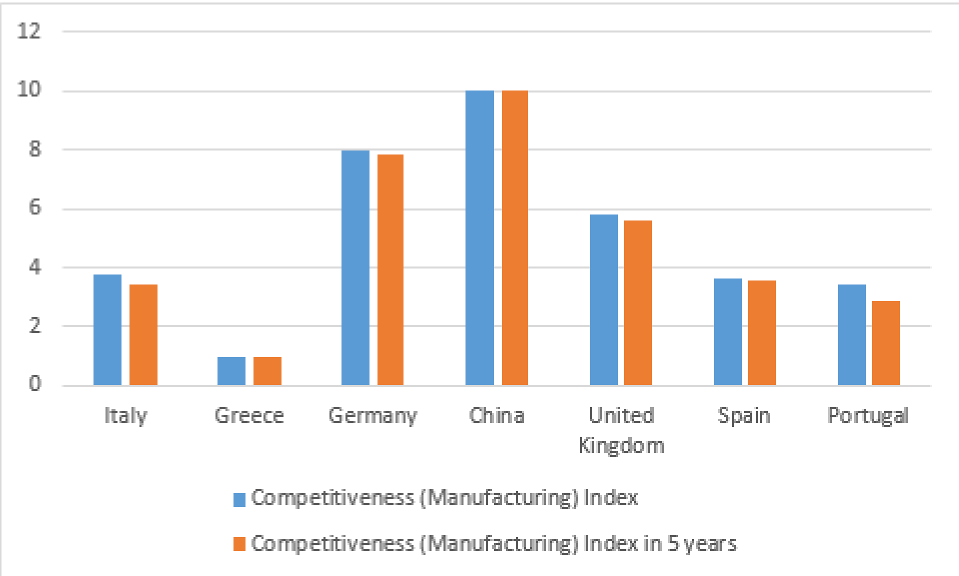
A Productive Structure Similarity Index (PSSI) developed by Botta (2014) on Eurostat data show that the smaller peripheral nations, such as Greece, display vastly different productive structures to that of Germany. These divergences were also exacerbated in light of the crisis. The data demonstrates the state of 'backwardness' in these nations in the production of capital goods, and could be that the productive development is not yet complete. (Botta 2014: 8) It is suggested that a well-developed productive sector is conducive to innovation and growth, and thus the underdevelopment seen in these nations could have long-lasting negative side effects impacting growth.

The same is not readily apparent in the case of Italy. Botta (2014) argues that the asymmetries are far less evident in this instance, but they are increasing over time. The predominant impact of the crisis appears to have hindered the growth of the investment goods sector in particular, where Germany saw a quick resurgence. This case is not supported by Simonazzi et al. (2013), who argue that Italy has been reducing its divergence. However, Southern Italy has suffered, having worsened both specialization and its productive structures.

The basic trend is that Germany gravitated towards medium and high-tech intensive exports. There is an identifiable de-specialization in the case of Greece in this industry, while Italy maintain an export specialization in labour intensive and low-tech sectors; Italy also demonstrate a comparative disadvantage in the high-tech sector. (Storm and Naastepad 2015; Botta 2014) Already when the Eurozone was created Germany had the highest value added share of high and medium-tech manufacturing, 24.9%, this increased a further 2.4 points 1999-2007. This technological upgrading outstripped other countries in Europe that registered an absolute decline, with France 3.7% and Italy 1.4% for example, representing absolute divergence. At the same time, German value-added share in low-tech manufacturing was substantially lower than EU average in 1999 particularly that of Greece and Italy, and this divergence grew over the period: in 2007, value added share was 3.6% lower in Germany than Greece; 4.3% lower than Italy. This demonstrates clear divergence and Janger et al. (2011) exhibit a clear pattern of Germany advancing quicker than the peripheral nations across a range of indicators, such as skill intensity, capital intensity and innovation intensity for example.

These findings can be validated when assessing the WEO global competitiveness report 2014-2015. This analysis utilizes 12 “pillars” of competitiveness, utilizing such factors as macroeconomic environment, health and education, infrastructure, and training for instance, to compile an arbitrary ranking system of all nations globally. The findings place the peripheral nations fairly low on the rankings. Italy ranked 49th while Greece faired substantially worse at 81st. These results can be further substantiated by analysis from 2013 Global Manufacturing Competitiveness Index from Deloitte's and the US Council on competitiveness, evidenced in the figure below. The study uses data gathered from 550 CEOs and senior manufacturing leaders in 2012 to rank nations accordingly. This data may be relatively superficial but serves to represent the inherent problem that developed, Greece and Italian data will be evaluated in greater detail in the next section.

Figure 16:Country Manufacturing Competitiveness Index Rankings (2013)



Source: Deloitte Touche Tohmatsu Limited and U.S. Council on Competitiveness, 2013 Global Manufacturing Competitiveness Index

Essentially, the source of the problem goes back to varieties of capitalism and domestic politics. This is where the real problem of the crisis is derived: widening differentials in labour productivity and technological capabilities. Since the inception of the Eurozone

Germany has been able to strengthen its productive structure while the periphery, on average, have become more narrow and are declining technologically relative to the Northern states. It is a misallocation of credit, assumed to be largely influenced by socioeconomic interests, driven by monetary and financial integration. The only hope of restoration would be through EU-level coordinated policy to restore imbalances.

In relation to this work, this conclusion is very important. The main question that needs to be assessed is why this occurred, utilizing a domestic politics approach this paper hypothesises that domestic considerations underlined fiscal policy decisions that lead to these dramatic divergences in competitiveness. This is why wages are still of importance. It may be that RULC increases may not be of direct causation to the crisis, yet a prominent link these analyses fail to recognize is that wage increases are directly correlated to non-price competitiveness since they represent a diversion of resources that could have been used for upgrading activities. It is this link that this work wants to substantiate through hypothesising that domestic considerations underline this diversion of resources and in essence were inherent in the convergent response to the crisis and subsequent diversion response following it.

Taking heed from post-Keynesian logic of crises, there are clear divergences in EMU between member states, which were both reinforced and exacerbated with monetary and financial integration. Shedding a domestic politics light on these characteristics unveils a far more intricate picture, of competing interests and ideas amidst mediatory domestic institutions. For instance, a recent paper by Rothacher (2015) portrays how domestic politics in France has almost entirely dictated their government position on the European crisis. It is therefore imperative to understand the positions of both the government and important domestic socioeconomic actors, as well as ideas, to interpret fiscal policy decisions. Also central to this understanding is appreciating the links and mechanisms by which domestic interests can exert influence over policy. An understanding of why this occurred can be explained relatively simply in the case of the periphery, aside from Greece and Italy, where the predominant capital flows were private and rates of return highest generally in construction – simple capitalist logic. However, Greece and Italy saw almost entirely public inflows and thus in two countries marked by corruption, clientelistic tendencies, self-serving administrations, and prevalent domestic socio-economic interests, it is hypothesised that spending was actively diverted towards other sectors based on the respective influence of domestic considerations.

This introduction presented a quantitative evaluation of the dominant perceptions on the causes of the crisis. It highlighted the prominent inherent weaknesses with the argument that either fiscal profligacy or capital flows underlined the development of the crisis. This conclusion holds important connotations for the successful resolution of the crisis and could dramatically impact policy decisions in the post-crisis phase. The perception of the crisis clearly dictates the policy decisions in resolving it, the European understanding that the crisis is a combination of fiscal profligacy and issues of cost-competitiveness has signalled the Troika to emphasise internal devaluation through severe cost-cutting measures targeting jobs, wages, and social security. However, considering the conclusions presented in this section, in combination with widespread commentary and observations, this logic is flawed and the policies have been both ineffective and counterproductive. The fact that the Troika's agenda is derived from this misunderstanding of the crisis presents significant questions of legitimacy over the consolidation efforts that are being imposed upon Greece. This engages directly with domestic politics, granting their concerns even greater relevance considering they have to bear the burden of adjustment that lacks accountability and legitimacy.

Furthermore, the perception of domestic politics in Greece recognizes the flawed nature of austerity, there is an overwhelming sentiment that the measures are overly harsh and do not tackle the true problems of the crisis. This intensifies domestic considerations as a variable in the process over time, assuming the Troikas' perception of the crisis remains the same and the implemented policies continue to exacerbate economic deterioration. The economic conditions threaten the social contract that exists and continue to increase the relevance of domestic politics.

2.6 Societal Conflict

This section provides a brief theoretical discussion on the key societal models in political economy and presents a justification as to why this work will adopt Schirm's model of government preference formation. It contrasts this work with another highly influential framework derived from Gourevitch's "Politics in Hard Times" that presents an applicable model of societal conflict. The section will first outline Gourevitch's framework, before evaluating its worth to the work and the limitations in comparison to Schirm with regards to the core aims of this thesis.

Peter Gourevitch's "Politics in Hard Times" presents a significant development in research by attempting to create a firm theoretical framework for the analysis of the link between changes in international economic conditions and patterns of societal conflict. Gourevitch's work has also been the foundations of further developments in comparative political economy, most notably in Rogowski's (1987) Commerce and Coalitions. The work has also been highly influential in the development of Schirm's societal approach and shares various insights but departs on the emphasis of influential variables, which is an essential point for this research.

The debate surrounding political decision making centres on the relative importance of interest, institutions and ideas in dictating both economic and political developments in countries (Hall 1997; Immergut and Anderson 2008). Whilst for Gourevitch, it is the emphasis for structural characteristics that are important, namely socio-economic interest and political power, in determining systematic policy choices in in times of crisis; Schirm considers ideas, interest, and institutions as co-independent variables for government preference formation. Ultimately, the approaches are attempting to decipher the decision-making process concerning politics and institutions and how conflicts of interests are organised within the political sphere to result in a final outcome. The disagreement comes when emphasising the importance of certain factors in the process to explain the variation of outcomes across polities and times.

'In prosperous times it is easy to forget the importance of power in the making of policy. Social systems appear stable, and the economy works with sufficient regularity that its rules can be modelled as if they functioned without social referent. In difficult economic times this comfortable illusion disintegrates. Patterns unravel, economic models come into conflict, and policy prescriptions diverge. Prosperity blurs a truth that hard times make clearer: the choice made among conflicting policy proposals emerges out of politics. The victorious interpretation will be the one whose adherents have the power to translate their opinion into the force of law' (Gourevitch 1986: 17).

As outlined by Gourevitch, often it is overlooked that in the decision-making process there are broad societal conflicts of interests that have a significant influence on the characteristics of policy that govern an economy and redistribution within a certain polity. Therefore, when difficult decisions are to be made, the wider societal influences of policy making becomes far more apparent, as socio-economic groups become more active in the process to defend their interests.

‘Hard times’ are those of severe economic trouble that initiate political controversy and will consequently result a large adaption of economic policy (Gourevitch 1986: 19). Hard times are perceived as systematic crises insomuch that they break down the usual means of conducting economic and political life under stress of a large external shock, such as the recent financial crisis. The central feature of these periods is that change becomes inevitable, and it is the direction that remains contentious. Since the long-term implications of both economic and political adjustments as a response to the crisis are significant, both economic and political institutions are placed under severe pressure by different groups in society in an effort to influence the emerging systemic policy choices in their favour.

Appreciating the build-up to the financial crisis is also critical for understanding the role of domestic politics. By definition, periods of large fiscal imbalances are also categorised as ‘hard times’ since they expose the unsustainability of the redistributive nature in any given state. Given large fiscal imbalances, any spending or revenue arrangements, despite potentially being sustainable beforehand, now present a potentially dangerous predicament since they require substantial borrowing to fund and in turn leads to ever increasing debt growth. These severe fiscal imbalances can be exposed by market fluctuations or exogenous shocks.

Like Schirm, the model begins with the basic premise that governments require societal support in order to implement decisions in highly contentious scenarios. Government is limited and accountable since influential groups and actors can campaign against decisions that will be harmful to their respective interests, whilst in democratic societies they are ultimately accountable for their actions. With severe fiscal imbalances that must be addressed in light of the crisis, large sections of society will be subject to major adjustments and redistribution as action is forced upon the states to address these inherent issues. There is a risk that these sections of society will lose income via higher taxes or cuts in public spending and thus they have an active interest to protect themselves. For example, in the 1990's Marzinotto (2002) argues that Italy's fiscal consolidation was largely influenced by domestic socio-political coalitions due to their preference with either spending cuts or revenue increases.

As such, domestic politics can be assumed to play a major role in the policy making process during such times. The constellation of conflicts and commonalities of interest between various actors within society and the power relations between them will be a noticeable characteristic of any decision made. The purpose of Gourevitch's theoretical model is to establish how and why such societal interests can lead to policy delay or change the course of the decision entirely.

2.61 Critique

The fact is, there are both ontological and theoretical problems with utilising a materialist account, such as Gourevitch's "Hard Times", of current events. Materialist scholars share the view that agents are collectively making efficient use of the available information. So, whilst individuals may commit subjective errors, aggregate efficiency via selection pressures ensures that global trends will restore levels to the prediction of economic theory. (Muth 1961: 316) For instance, major shifts in economic resources may have a significant remodelling effect on economic order. Yet, these approaches mask the importance of interpretation and lead to a relatively simplistic view of agency (Hay 2004:52-53). The case is only valid if there are clear incentive structures that guide rational choice, then political variation will be small; however, even this does not truly represent interest.

The materialist perception stresses the effect of economic crises on the economic production possibilities. Gourevitch (1986:20-21) argues that the effect of economic crises, which he identifies as major downturns in the business cycle that rearrange the 'placement of social actors in the economy' and influence subsequent policy choices. This is derived from the prominence of societal actors that become engaged in politics due to their material interests being threatened and therefore become a vital component of the decision-making process.

There are two central issues with this perception. Firstly, emanating from constructivist critique, they distort the 'influence of intersubjective understandings on agents' interpretations of material incentives' (Widmaier et al. 2007: 748). Equally, Blyth puts forth that both structures and exogenous shocks must be interpreted. Economic crises cannot be defined in the simple term of their impact on economic capabilities. Secondly, materialists distort the full scope of agency, merely restricting its relevance to strategic interaction or adaptation. The perception suggests that agents automatically respond to material shifts in an easy and predictable fashion. However, this logic is misguided insomuch that agents' capabilities are neither exhausted by adaptation to structural constraints or material incentives.

Constructivism stresses how intersubjective understanding provides meaning to incentives and interests. These understandings transcend individual belief and hold a collective permanence. Constructivists believe that such intersubjective analysis is important since agents' cannot efficiently utilise all available information in developing their strategies. There is an inherent uncertainty in forming expectations. It is a deeper constraint than a mere materialistic calculation, it refers to the limitation of an agent's capability to form any meaningful estimate of future trends. It is this uncertainty that leads agents to rely on intersubjective understandings of how to view events and ultimately define their interests (Wendt 1999; Blyth 2002, 2006).

Further, constructivists argue that such intersubjective understandings are maintained or even transformed by interaction – through expressive, communicative, or rhetorical practices. This approach therefore allows for an understanding of variation in outcomes of politics, whilst also dismissing the notion that there is an automatic efficient outcome that agents are lead to. On the other hand, it sets out the conditional nature of political decisions by evaluating how agents frame such situations to develop a strategy, while also recognising that frames themselves can generate future uncertainty.

More specifically on a theoretical level, Gourevitch's framework has a number of underlying flaws that relate to this research. As has been noted in other works, Gourevitch's "Hard Times" is a situational and relational account of select episodes in history (Kahler and Lake 2013: 192). Utilising this limited account for the societal background of policy-making – which identifies the relevant actors, the sources and strength of domestic influence, and the commonalities and conflict of their respective interests – ensures a sufficient understanding of why and how individual fiscal consolidation measures succeed or fail in a certain economic and social context, and also as to why policy deadlock occurs due to the balance of power in the domestic sphere. It is this limited context that restricts the effectiveness of this particular framework for the research.

The problem comes from the "static" nature of the framework. Fiscal policy decisions during a crisis is a dynamic problem that needs to be appreciated in a diachronic context. As fiscal problems worsen through continual accumulation of debt and countries vulnerability to exogenous changes in the economic and financial environment exponentially rises, this further restricts government's policy latitude whilst the economy continues to decline.

Equally, societal coalitions become more active whilst public opinion also rises in relative importance as hostile attitudes develop and interest in policy issues grows. Gourevitch's original approach is targeted at comparative statistics: the focus of his model is in explaining why economic shocks transform both policy and institutions in a certain manner in select polities.

The framework succumbs to the problem that many analyses of the crisis have suffered from. Since it is based on comparative statistics, the framework breaks experiences into multiple discrete episodes, measured in terms of change in the fiscal situation between two separate time periods. This treats political decision-making as a series of 'static and episodic events that can be isolated from each other without loss of meaning, such that episodes of fiscal consolidation can be abstracted from the contextual environment without loss' (Dellepaine and Hardiman 2012: 2). It also incorporates a further assumption that the explanatory variables utilised for the analysis of the identified patterns are equally static and invariant in meaning.

Yet, it is this underlying characteristic that also lays the foundations for a further drawback that limits its appropriateness to this research. Although both Schirm and Gourevitch begin from a similar premise, in his work Gourevitch emphasizes structural characteristics – namely socio-economic interests and political power – whilst disregarding a number of significant considerations, primarily both ideational and institutional considerations. Gourevitch offers 'rich synthetic historical explanation' for the responses of countries to crisis situations; however, he accords "economic ideology" a secondary role, one he believes is only important to shaping the alternatives available to societies or that aids in coalition formation (Legro 2007: 195). He presents a valid critique of extant economic ideology explanations as being able to explain continuity, however, since they emphasise constants, there is an inability to account for change. Therefore, since this perception assumes ideas do not explain all change, it suggests they have no role in change. It therefore overlooks crucial ideationally driven expectations and their crucial interaction with events. It is this disagreement on the importance of select factors that ultimately means Gourevitch's framework is incompatible with this works ambition in its purest form.

Further, Legro (2007) highlights the inherent weakness with this approach in his critique of the framework. He uses Gourevitch's example of the 1873 depression to exemplify his argument. In this analysis, Gourevitch posits the event represented the same shock across all affected nations that shared a basic free trade, and a classic liberalism orientation. However, this was not the case: countries differed in their commitment to free trade. As Gourevitch notes, Britain had far more liberal free trade ideology than Germany, which favoured interventionism. It is not surprising then that their ideas developed in a variety of ways over time, since they responded to varying expectations and different types of replacement ideas. This represents how collective ideas may influence how actors in the same position respond differently to the same or similar circumstances.

Even on a more general level, the role of ideas in shaping political change is highly significant for political economists. Blyth's (2002) analysis of institutional transformation in Sweden and the United States looks at economic crises, be it not financial crises; nevertheless, the interpretation argues that the precise nature of changes in relative political power following such an event is dependent on the distribution of ideational resources amongst actors. Hall (2003) argues that orthodox economic and financial ideas were central to undermining the mixed policies and political institutions known as the "Asian development model" following the devastating Asian Financial Crisis. Even broader, ideas are fundamental to the recent re-interpretation of the concept of critical junctures (Collier and

Collier 1991), which represents a single step in the causal chain between economic shocks and political change. (Hogan and Doyle 2007)

Ideational characteristics are a vital conceptual tool that has become ever more crucial in light of the financial crisis and is at the heart of this works research questions. The role of ideas as an independent variable to be recognised has been identified and proven by numerous scholars, Schirm included; whilst even Gilpin concedes that there is a role for ideology in analysis (Gilpin 1987; Goldstein and Keohane 1993; McNamara 1998; Wendt 1999; Blyth 2002; Helleiner 2011; Schirm 2011, 2013, 2014). Helleiner (2011) for example, considers the ideational origins of the financial crisis and highlights how significant ideational factors – such as, ideational complacency in US policy; or market-friendly forms of regulation being derived from ideational factors. This latter factor has been widely noted by many analysts who argue that top officials believed that securitization was creating a more resilient and risk-free financial environment, an idea which was also greatly influenced by the free market ideology following the cold war and was reinforced by technical economic ideas of the time such as the efficient-markets hypothesis. Schirm (2013) also demonstrated in a cross-country analysis of the financial crisis how differences in the articulated interests were roughly the same as ideational divergences.

In other words, Gourevitchian framework lacks the sufficient variables and game theoretical model to provide a full explanation of policy creation during a dynamic problem such as the sovereign debt crisis across multiple countries. The framework has significant assumptions on central themes of this research, particularly given the institutionalist perception that the research has adopted. Schirm's model of government preference formation, on the other hand, provides sufficient depth of analysis for this work, even if it is more of a "general" framework that overarches a number of variables and approaches.

A further positive of Schirm's approach is that it goes beyond that of others, such as Moravcsik's liberalism, by underlining the importance of testing the impact of the variables alone and in combination with a variety of empirical settings. Further, the societal approach also recognises the need to determine the conditions under which each variable becomes prominent to government preference formation. This extensive conceptualisation and operationalization of the specified variables ensures both a rigorous and effective analysis, similarly recognising conditions by which different variables may dominate is important for delineating relative influence.

Overall, Schirm's approach may be general but it combines key insights from key international relations theories to provide a multidimensional theoretical tool that is effective at understanding a variety of international political economic situations. In line with neorealism, Schirm emphasizes the importance of relative power: that domestic groups with the most relative power have the greatest chance of influencing their preferences successfully. Unlike neorealism, the societal approach emphasises relative power in the domestic sphere, as opposed to international power. In line with institutionalism, Schirm recognises the importance of rules for determine domestic policy: societal coalitions whose participation is institutionalised within the policy making process have a greater opportunity to influence proceedings. Unlike institutionalism, rules do not focus on mutual gains and minimal uncertainty through cooperation. The approach considers relative gains since any single policy decision is unlikely to incorporate the often multiple and contradictory preferences of domestic actors. Utilising this approach in the evaluation of domestic politics in Greece and Italy presents a perfect complement to the research aims due to its multifaceted approach coupled with significant empirical testing.

If there is one thing to take from Gourevitch, it is that there is an intrinsic openness to politics, especially at conjectures. (Gourevitch 1986: 239-40) The politics of the 1940's and 1970's were associated with significant experimentation as governments attempted to overcome severe new problems with novel strategies; it is in such circumstances as the current crisis that similar patterns of parallel experimentation could occur. In the European Union, 'this process is manifestly underway' (Hall 2010: 20). The lesson to take from this interpretation is that if such policy experiments are to yield successful and deep new paths for policy, it is not just the economic problems that will have to be addresses, but the dilemmas in assembling political support in the domestic arena that is beset by 'fissiparous tendencies and the tides of economic discontent' (Ibid.).

This analysis indicates that a different form of analysis is necessary, as per constructivist critique. Crises should be seen as 'events which agents intersubjectively interpret as necessitating change' (Widmaier et al. 2007: 748). It should be understood that agents act upon their understanding rather than the mere material interests. The interaction of understanding is more complex than an automatic reaction to material changes, they must be interpreted through complex and diverse frameworks. It is assumed that Schirm provides an adequate framework of diverse variables to appreciate this interpretation of domestic actors.

This section has provided a theoretical discussion through presenting an overview of Gourevitch's framework for political decision-making in hard times and analysing its worth to this research. The section evaluated the central purpose of the framework against the research aims whilst also contrasting its principles with that of Schirm's societal approach in discussing why this work decided to adopt Schrim. It conducted both a theoretical and practical critique of materialist accounts and demonstrated the merits of how Schirm's model fits with this research.

2.62 Schirm's societal approach to governmental preference formation

This next section introduces the theoretical framework that shall be adopted for the evaluation of the cases. It predominantly draws from Schirm's societal approach to governmental preference formation. This framework identifies and operationalises three key variables that are the basis of domestic preferences and consequently government preference formation for policy decisions.

The societal approach contends that government preferences towards policy action is dictated largely by domestic considerations that come in the form of a trifecta of variables – ideas, interests and institutions. This idea of domestic politics influencing fiscal policy decisions is a perception that has not been entirely appreciated in modern research. As was analysed previously, the literature on the current sovereign debt crisis has been dominated by economists, which do not consider such an approach. Furthermore, systematic theories such as international institutionalism and neorealism do not address the role of domestic forces in government preference formation and therefore cannot entirely explain this researches problem. Instead, much research in political science has tended to focus on five key topics: whether crisis management has been to appease the markets (Schmidt 2013); intergovernmental bargaining to juxtapose different negotiation positions of member states; national interest of states, with the prevalence of Germany as the strongest economic power (Young and Semmler 2011); design faults of the EMU, common currency without a political union (De Grauwe 2013; Lane 2012); finally, Southern states being highlighted as being the prime cause – with high consumption and real estate boom coupled with lower interest rates due to joining the Euro (Busch 2010; Lane 2012).

Though these strands of research tackle a number of central issues to the crisis, they fail to account for diverging fiscal policies and crisis management strategies, both of which contributed to the crisis and delayed the subsequent stabilization. Whilst society-centred approaches have been utilised widely for explaining economic policy choices and outcomes across a range of policy areas, fiscal policy has not been analysed in the same vein. For example, Kindleberger (1951), Rogowski (1990) and Frieden and Rogowski (1996) analyse trade policy across countries focussing on producer groups as the key factor. Equally monetary and exchange rate policies have been subject to modelling through societal interests, Henning (1994) and Frieden (1991; 2001) both demonstrate how conflicting interests have an impact on policy decisions. Aside from a scarce few exceptions (e.g. Hopner and Schafer 2012; Olender 2012), research has largely ignored the domestic foundations of fiscal policy creation and of governmental preference formation. The recognition of domestic attitudes, interests and institutions, act as an important consideration to any fiscal policy creation and efficient European regulation, since it must be recognised and implemented across all member states if the EMU is to achieve a sustainable economic environment. This work looks to address this gap in the research by evaluating the fiscal policy decision making process of both Greece and Italy and analysing how the sovereign debt crisis has altered this process. It will consider the domestic sources of policy influence by utilising the societal approach to governmental preference formation. The main puzzle to be investigated refers to the build-up of fiscal deficits in the pre-crisis phase and the observation of a lack of willingness of the EU to engage in the harmonization of fiscal policies despite the obvious and stressed need for a political union. This work focuses on the domestic politics of two chosen nations, namely Greece and Italy, and puts forth the argument that societal ideas, material interests, and path-dependent national institutions diverge significantly with the rest of the EU, which in turn leads to a divergence in fiscal policy creation and government preferences. This work is looking to draw the debate back firmly into the realm of political economy, and introduce the characteristic of domestic politics as a central influence in the decision-making process.

Aforementioned, the central proposition of the approach is that since governments in democratic systems are accountable to the electorate, they are responsive to societal demands that rest on ideational beliefs, interest group lobbying, or national institutions (Schirm 2013: 5). It is these three variables that are assumed to be heavily influential in governmental preference formation, and they must be conceptualized in order to be empirically investigated. The following analysis will set out the societal approach to governmental preference formation and outline how they will be operationalized.

The societal approach as set out by Schirm (2009; 2011; 2013) rests on theories of domestic politics, such as the liberal theory of international relations (Gourevitch 1986; Katzenstein 1978; Moravcsik 1997), varieties of capitalism (Hall and Soskice 2001; Amable 2003; Fioretos 2001) and historical institutionalism (Farrell and Newman 2010; Fioretos 2011a; 2011b). Although Schirm's work has developed the original propositions of Moravcsik, it is to a far greater degree based on empirical verifiability. As Schirm (2013:5) describes: 'The societal approach partially integrates and develops these theories further and focusses on questions regarding the conditions for the relative prevalence of societal ideas or interests on governmental positions' The central assumption of the approach is that governments in democratic political systems must be responsive toward societal demands in order to stay in power. Thus governmental preference formation may be seen to be subject to such societal interests which come in the form of domestic ideas, interests, and institutions. Therefore, governmental positions are assumed to express preferences originating from these specified societal variables prior to international bargaining or policy creation whose cost-benefit considerations may change drastically according to the economic environment, be it crises, competitiveness, or regulations. This implies that states do not automatically maximize fixed, homogeneous conceptions of security, sovereignty, or wealth per se, as realists and institutionalists tend to assume. Instead… they pursue particular interpretations and combinations of security, welfare, and sovereignty preferred by powerful domestic groups" (Moravcsik 1997: 519).

Thus, in order to understand the fiscal policy decisions of states and success of implementing European regulation, it is first necessary to analyse the domestic sources of government preferences. The framework developed suggests three explanatory variables: domestic material interests; value-based ideas; and domestic institutions that shape both ideas and interests. Schirm defines interests and ideas as independent variables to be tested, whilst by definition the variable ideas also constitutes an institutional aspect. The inclusion of both interests and ideas is based on the premise that both individual and governmental preferences are influenced by either short-term material considerations or long-term ideas individually, or indeed by a combination of both factors. Whilst interests and ideas can compete with one another for influencing preferences, equally interests and ideas may also compete amongst themselves. Institutions enter the picture by not directly forming preferences or competing with the other variables, but by dictating the intensity and policy relevance of ideas and interests – by either reinforcing or restricting the political influence.

The approach developed also seeks to complement rational and reflective institutionalism. (Hall and Taylor 1996; Keohane 1988; Schmidt 2009) Compared to rational institutionalism, which suggests an objective nature of institutions and concentrates on transaction costs, this approach utilises an interpretation of the market and its regulative institutions by considering ideas as an independent variable and policy-discourse as a method. (Schirm 2011: 49) Further, as opposed to reflective institutionalism, which puts forth that institutions are shaped by intersubjective communication, Schirm's societal approach also considers this reflective element by analysing the role of ideas, it also considers the role of material economic interests in political discourse. Hall and Taylor (2009: 27-28) emphasise the importance of utilising both ideas and interests in analysis: 'although the interests of firms and workers are crucial to particular modes of coordination, capacities for coordination also depend on ... a set of shared understandings about how other actors will behave'. Similarly Blyth (2002: 251) also argues that 'structurally given interests' need to be instructed by 'ideas that inform agents' responses to moments of uncertainty and crisis.' It should be noted at this point that the three variables interact with one another and mutually constitute each other, their conceptual separation in the approach is only for analytical purposes of identifying sui generis characteristics of them.

2.63 Interests

Interests are defined as the 'material economic considerations of domestic groups which can alter rapidly according to changing circumstances understood as new benefits and costs induced by globalization and (new) global governance" (Schirm 2009: 504). This definition assumes that rational economic actors alter their preferences in light of changing circumstances, such as the economic crisis, which leads to new requirements.

If it is assumed domestic interests affect policy divergence on fiscal policy and the management of the European debt crisis, then material cost-benefit calculations of specific interest groups must be found that demand specific positions from the government. (Schirm 2013: 10) These material considerations react quickly to changing circumstances and weigh up the short-term benefits and costs within the changing global economy and new global governance initiatives. To operationalise these variables for empirical analysis, the work will take statements by national industry federations and chambers of commerce as indicators of private economic interests and utilises as examples for organized and politically important groups. Whilst other groups will have an impact upon policy decisions, industry associations and chambers of commerce are recognised here as the most important for diverging demands considering their members' cost-benefit calculations are directly impacted in different ways by European regulations and also since the members of such groups consists of a substantial proportion of private economic interests.

In order to fully encapsulate domestic interests, a thorough evaluation of the socio-economic societal coalitions is necessary across each case. Specifically for Italy, the work will look at: trade unions (CGIL, CISL, UIL); the employers' associations (Confindustrial, Confapi, Confcommercio); and the banking association (ABI).Whilst for Greece, the work will consider: trade unions (GSEE, ADEDY); employers association (SEV, GSEVEE, ESEE); and the banking association (HBA). It should be noted that although ESEE could be included amongst sectoral employer organisations, considering that it consists exclusively of employers engaging in the commercial sector, it traditionally functions and is recognised as a tertiary national employer confederation, with both SEV and GSEVEE. (Eurofond)

In order to evaluate interests, a mixture of discourse analysis – from evaluating statements and primary documents – will be combined with elite interviewing of members associated with relevant policy lobbying action or with noticeable interest in certain fiscal policy matters. Public statements have been chosen that represent clear and outspoken interests of particular groups; whilst primary documents include such sources as union constitutions, policy documents, fiscal policy evaluation documents, and petitions. Interviews will be held with key figures in these socio-economic groups that have a clear interest in or role in certain fiscal matters: be it a leader of a particular division within the union; known to have been involved in lobbying; or representing a certain part of society that have a strong interest in certain reforms.

The work sought to select the predominant socio-economic groups in each individual case. There are three key avenues by which domestic interests are put forth, trade unions, employers' associations, and the banking association. It is these groups that represent a substantial amount of private interests and therefore should indicate domestic interests through lobbying or pressuring government policy. It is therefore crucial to select the most influential groups in each category.

In Greece there are three employer organisations active at a national level, all of which have co-signed the National General Collective Agreement with the Greek General Confederation of Labour. These three organisations share a number of characteristics: they do not belong to any overarching trade associations; they are pure employer associations; and they consist of secondary employer associations at the national level, irrespective of the more specific branch of economic activity in which their members participate.

There are only two major trade union confederations in Greece, ADEDY and GSEE. GSEE covers private sector employees and employees in firms and sectors under public control, such as banks, transport, and utilities; ADEDY, on the other hand, membership is only civil service. In 2007 GSEE claimed it had 472,000 member eligible to vote at congress whilst ADEDY supposedly had 311,000. It is thought that between a fifth and quarter of employees in Greece are union members. Greek trade unions currently face a major challenge, social cohesion is under immense pressure due to the social and economic impact of adjustment measures that has disproportionately affected workers, pensioners and honest tax-paying citizens. (Lanara 2012: 3) The negative impact for workers is diverse: job and income losses have eroded their economic ability to withstand further repercussions of the crisis; the loss of important social and trade union rights that debilitates their institutional power to cope with diversity; and multiple spillover effects of the crisis combined with severe austerity adjustment measures –tax and other payment increases which are further eroding disposable income and vast cuts to social expenditure that are restricting access to social services while the costs of living remains high. Trade unions, therefore, are at a critical juncture where they are more important than they potential ever have been in recent times whilst have been undermined by reforms which is also threating the cohesion of collective representation.

Italy presents a more complex situation with choosing socio-economic key groups. For employer associations in particular, there is a highly complex and fragmented representation of employers. Confindustria is the largest and most influential association, which in recent years has significantly widened its membership from a predominantly manufacturing base to the growing service industry – expanding into advanced business services, tourism and private health care. It is important to understand the Italian production system when considering selecting employers' associations. Italy is still an industrial economy, however recent figures represent a growing service economy that is rapidly increasing in importance. Confindustria's expansion, with various utility companies joining, is indicative of this change. The next two associations chosen were picked on this premise. Confapi represents small and medium-sized manufacturing firms with over 1,000,000 employees being represented; whilst Confcommercio represents commercial, tourism and service firms and is the most influential in this sector with 820,000 affiliated firms that amounts to 24% of non-industrial firms. (Eurofond; ISTAT 2007)

Trade unions, on the other hand, presented fewer problems. Italy has three main trade unions, namely CGIL, CISL and UIL, which together account for 12.5 million members. It is therefore necessary to consider all of these main unions in the analysis. Trade unions in Italy have traditionally played an important role in political system and have become strongest in the service sector, which employs 70 per cent of the total workforce. Until the early 1990's each union held close association with one of the political parties; whilst direct ties gradually dissolved over the past two decades they have largely maintained their political orientations. Collective bargaining exists at two levels, sector and workplace. However, a serious trade union crisis led to a trilateral agreement in 2009, which CGIL refused to sign, that permits workplace and in-house agreements to undercut sectoral collective agreements. Despite CGIL not having a social dialogue with the previous Berlusconi government, Monti reignited talks with CGIL leader Susanna Camusso. However, the key point is that in Italy there is significant disenchantment with politics, which is to unions profit as they have developed significant influence and have reached a record level of 34 percent trust that displays their measure of acceptance in society. (Namuth 2013)

2.64 Ideas

The identification of sources of interest was relatively simple, given that there are clear societal groups that represent and pursue domestic interests. Ideas require far more interpretation, yet have an active definition drawn from insights from the institutionalist or varieties of capitalism literature. Within the framework ideas are defined as collective societal expectations about the perceived appropriate government position and action. Ideas may manifest themselves in societal attitudes and behavioural practices, and have the ability to codify in the form of institutions. This conception has developed previous research on Moravcsik's "ideational liberalism" (1997). In complementing this previous approach, Schirm differentiates between process ideas and content ideas. Process ideas refer to the expectation about how decision making should be conducted; whilst content ideas express how society sees a core task of the state in a particular policy area.

To operationalise ideas it is important to consider the various forms ideas may express themselves in. Both *ideas as attitudes* and *ideas as practices* will be evidenced as possible relevance for the question. Firstly, *ideas as attitudes* represents the domestic political perception on how the fundamental role of politics should be in managing the economy. Fiscal policy divergence, at least on a European level, is primarily focussed on restraint versus debt fuelled demand management, on conditionality versus autonomy and finally on a transfer union versus self-responsibility. As such, societal expectations on governmental preference can be seen to manifest themselves in public attitudes towards: government spending; the need to reduce public debt; and transfer payments in social systems as an indicator for self-responsibility versus collective solidarity. From a methodological perspective, this data can be drawn from the World Values Survey (WVS), Pew Research Centre, Eurobarometers, the European Values Survey, and the Elite interviewing that shall be undertaken. These sources provide accurate data that represents public opinion and domestic attitudes across a range of topics. It was important in the selection to utilise nonpartisan fact tanks and analyses to ensure a fair representation. The chosen sources are the predominant sources of statistical data that provide relevant information on such information as: attitudes to public spending; how government should tackle socio-economic problems; and policy priority for example.

The second form ideas may express themselves in is *ideas as practices*. Practices are defined as ‘long-term behavioural expressions of ideational predispositions.’ (Schirm 2014: 3) Practices, however, go beyond value-based ideas and may cultivate general societal interests, which are not sectoral and short-term, but instead have the ability to cause or follow path-dependent ideas. These practices can connect ideas with general societal interest and subsequently become codified in institutional form or be derived from existing institutions.

This reflects the interdependency that exists between the various characteristics aside from their sui generis nature.

An indication of this characteristic would be private household saving rates insomuch that it represents societal expectations on government fiscal policy and monetary stability within the EMU. High levels of private saving signifies the expectation of public opinion that government policy should focus on monetary stability and sound fiscal policy in order to manage inflation rates – since higher inflation would reduce savings. As such, this indicator which represents societal ideas as practices, acts as a prime example of the mutual constitution of ideas and general societal interests. (Schirm 2013: 10) In order to derive this information, significant statistical analysis will be utilised and drawn from a range of reputable sources such as: OECD Factbook, European Commission, AMECO, IMF, ECB, and other central bank databases.

There needs to be significant statistical analysis for an effective evaluation of this particular variable. Since there is a strong mix of positivist and interpretivist methods the data needs to be broad enough to cover a range of approaches. Again, analysis on ideas will also be coupled with relevant research gathered from elite interviewing to provide further depth to the understanding.

It should be noted that whilst ideas and interests may complement one another, it is equally possible that they compete in shaping governmental positions. This raises the issue of the conditions necessary for the prevalence of either ideas of interests. The approach defines that ideas shall prevail over interests, on the condition that the issue does not directly affect the sectoral cost-benefit analysis, but instead relates to how the government handles policy and the economy. On the other hand, interests will find greatest influence when the issue directly impacts on the cost-benefit analysis of a particular well-organized economic sector.

Additionally, the approach argues that intergovernmental negotiations tends to be high if differences are interests based than shaped by ideas. The reason being that interests appear more accessible to compromising by a partition of costs than ideational differences which imply a new consensus on societal expectations. (Schirm 2009: 505)

2.7 Methodological Considerations

This section will evaluate the why Greece and Italy have been selected as the case studies for comparison. It engages with the primary literature on fiscal deficits and undertakes a cross-country analysis of fiscal consolidation. Further, it analyses the literature on varieties of capitalism and addresses some of the implications of this research.

Case Selection

Both Italy and Greece are highly relevant examples of both the issue that the thesis seeks to explain. Both countries have struggled with persistent borrowing and witnessed their debt levels rise to over 100 per cent GDP by 1995. It was due to troubles such as these that the Maastricht criteria was targeting in order to resolve imbalances upon joining the EMU. Therefore, they fit with the research questions of addressing why they both failed to stick to agreed rules, and how have they handled the crisis.

This work is looking to engage with existing literature, therefore following both Perotti and Mulas-Granados, the work will begin by using changes in the cyclically adjusted primary budget deficit in European nations as the primary indicator of fiscal consolidation. (Perotti 1996; Mulas-Granados 2006) The research will undertake a structured, focused case-study approach to comparison, as opposed to a pooled quantitative analysis of causal variables. (George and Bennett 2005: 65-72) The work will look beyond only exploring contrasts between the selected cases, to utilising the opportunity to analyse within-case variation over time. Case study analysis offers the opportunity to enable a different research strategy, which is to evaluate the complex interactions between the variables of interest of the framework. (Geddes 2003: 129; Featherstone 2011: 212; Gerring 2007)

Analysis of cross-national profile of budget deficits illustrates that many countries experienced large deficits during the 1980's and that they managed to converge on a balanced-budget equilibrium by 2000. However, the strategy of consolidation varied considerably. Mulas-Granados demonstrates this variation and that while some countries, such as Greece, followed revenue-based consolidation; others, such as Ireland, preferred expenditure-based adjustments. (Mulas-Granados 2006) European countries strategy on convergence varied considerably, as illustrated in Table 1. (European Commission 2000; von Hagen et al. 2002; McNamara 2003: 333)

Table 4. Episodes of fiscal adjustment in the EU 1970-2000

Country	**Episodes of fiscal consolidation**		Number of Episodes	Total Years
	Expenditure-Based	*Revenue-Based*		
Austia		1992-93; 1995-98	2	5
Belgium	1987-88	1977-78; 1982-85; 1993-98	4	13
Denmark	1983-87	1992-93; 1996-97; 1999-00	4	10
Finland	1971-72; 1988-99	1975-77; 1981-82; 1984-85; 1988-89; 1995-96	7	15

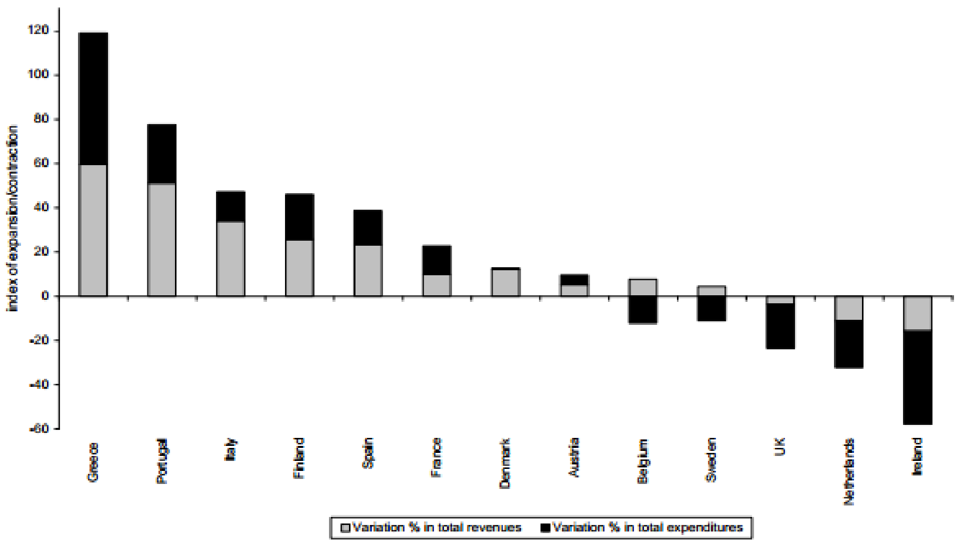
France	1980-81	1976-77; 1996-98	3	7
Germany	1982-82	1989-90	2	4
Greece	1994-2000	1974-75; 1982-83; 1986-88; 1991-92	4	16
Ireland	1983-85; 1991-95; 1996-99	1976-77	4	13
Italy	1976-78; 1997-00	1983-84; 1991-94	4	13
Luxembourg	1982-86	1977-78; 1996-97	3	9
Netherlands	1996-97	1972-73; 1977-78; 1985-86; 1988-89; 1991-94; 1999-00	7	16
Portugal	1982-84; 1986-87	1969-70; 1992-93; 1995-98	5	12
Spain	1996-00	1992-93	2	7
Sweden	1983-84; 1996-99	1976-77; 1986-90	4	12
UK	1969-70; 1996-00	1976; 1980-82; 1988-89	5	15

Source: Mulas-Granados (2006)

Categorization of select consolidation periods is often disputed. Whilst Mulas-Granados argue that countries, such as Greece and Ireland followed expenditure-based consolidation during the 1990's, others such as von Hagen et al. feel it was revenue-led adjustments. On the other hand, the European Commission claim Denmark followed expenditure-based adjustment in the late 1980's, while Mulas-Granados identify that it was revenue-led. (von Hagen et al. 2002; Mulas-Granados 2006). These varied interpretations are founded in the original problem highlighted with the predominant methodology of analysing the fiscal crisis, they arise from attempting to link discretionary policy choices to short-term fluctuations in the structural components of the budget. These results reinforce the assumption that a more nuanced approach is required that does not separate periods of consolidation and instead appreciates that policy-decisions are related to one another and viewed in the overall outcome of government strategy choices.

Strategy type, as defined by Mulas-Granados in their methodology, is seen as the sum of average variation in cyclically adjusted revenues and cyclically adjusted primary expenditures. The logic infers that the higher the value of strategy type, the more expansionary a government's measures on the total size of the government budget. It is therefore possible to apply this logic across the overall European countries fiscal paths to assess the policies of stabilization.

Figure 17: Expansion or contraction of public spending and revenues, 1980-2000



Source: Dellepiane and Hardiman (2012)

The above figure is a representation of the expansion or contraction across European nation's public sector between 1980 and 2000. It indicates the type of strategy followed by each country, with the extremes of Ireland – demonstrating the greatest case of contractionary policy – and the other of Greece – who followed an expansionary strategy. As a strategy Ireland has focused on expenditure cutting fiscal stabilization, whilst Greece has relied on raising taxes.

These two cases present the ideal type case for different methods of fiscal consolidation and patterns of reform. They are very important cases, firstly due to the significant variation in the outcome of interest, and secondly because they have generated substantial commentary, with Ireland highlighted as the paradigmatic example of fiscal adjustment and Greece being the problematic format (Goertz and Mahoney 2006: 184-5), and both have been cited as having significant problems in implementation (e.g. IMF 2017).

Given that this work seeks theoretical leverage through pairwise comparison between cases that exhibit strong similarities, it is out of the scope of this research to conduct an evaluation on both nations. Greece was chosen due to its position as the most affected nation of the crisis and its active acknowledged role of domestic politics in the recent past. It is vitally important to provide a constant in the analysis and utilise two countries that have similar socio-economic and political design and have been somewhat equally affected by the sovereign debt crisis. As the below theoretical analysis will elaborate upon, Greece and Italy have been identified as two nations with similar socio-economic and political backgrounds, equally they have had relatively similar experiences of the financial crisis and worrying deficits in the pre-crisis phase. The comparisons are also grounded in contrasting strategies to fiscal consolidation, expenditure-based as opposed to revenue-based.

Further, engaging with Dellepiane and Hardiman (2012) methodology, a second dimension of differentiation is proposed. The work distinguishes between alternative political strategies for implementing fiscal choices that is founded on the government's capacity to negotiate agreements and develop coalitions across a range of social interests. The quality of links between government and societal interests may be critical. As Dellepiane and Hardiman (2012: 9) highlight: ‘States featuring ‘embedded autonomy’ of the public administration are generally held to have more effective policy implementation – that is, when the links between political executive, public bureaucracy, and organized interests, are sufficiently well established to generate good consultative and information-sharing networks, but when the state institutions are also sufficiently insulated in their decision-making capacity to prevent capture by veto players. (Weiss, 1998, Evans, 1995, Pierre and Peters, 2005)’

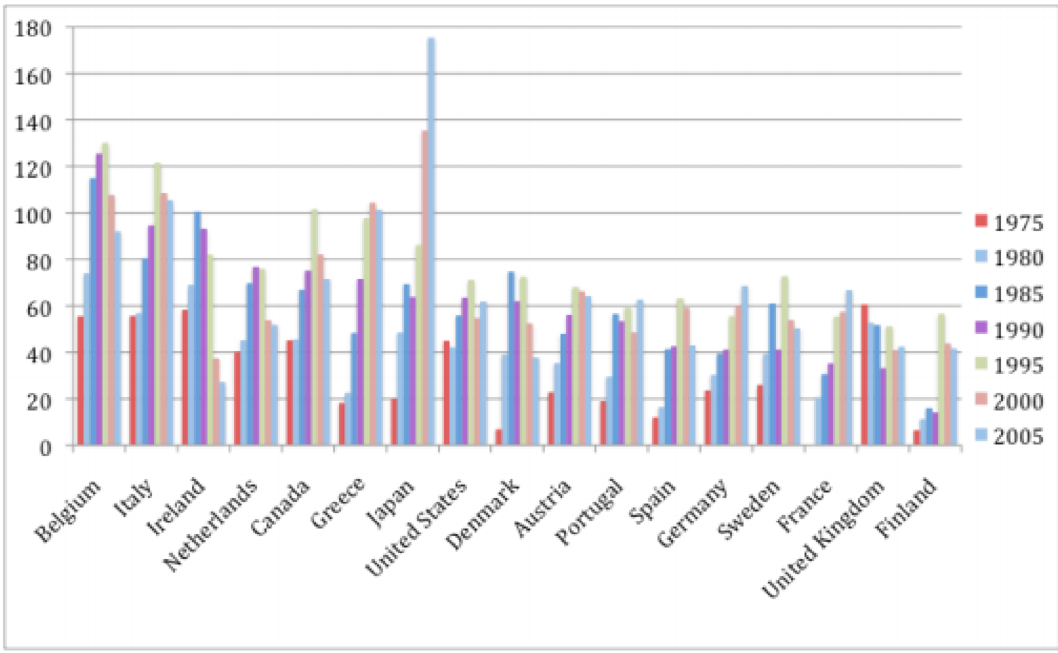
Such policy networks may not develop where economic and social organized interests are highly polarized on ideological grounds – often when the party system is also polarized. Such a situation creates conflict that often means it is impossible to create positive-sum outcomes from structured social dialogue. On the other hand, ideal policy networks may not develop if organized interests are disproportionate in power and influence. Specifically in the case of fiscal consolidation, if trade unions are not a credible representative due having a low organizational capacity.

Therefore, two government approaches to social dialogue are put forth. The first is “consensus-orientated” whereby coalitions with organized interests on particular issues of fiscal consolidation are constructed, either directly to pay bargaining agreements, or indirectly with social pacts. The second is “conflictual,” which is characterised by regular confrontation with hostile sectors of opinion in society; or it may be that policy is implemented without consulting organized labour. This mode of governance is represented as a top-down hierarchy compared to the former bargain orientated governance form. (Bell and Hindmoor 2009; Dellepiane and Hardiman 2012; Goetz 2008; Kooiman 2003) In this work for the classifications Greece is identified as conflictual, while Italy is perceived as consensus-seeking.

Referring to comparative statistical analysis, it is clear both countries had severe problems in an international comparison. Figure 1 represents the development of debt-to-GDP ratio across OECD countries over time from 1975 to 2005. It shows how Italy became the most indebted country in the world, overtaking Belgium, before Japan worsened. It also depicts how Greece steadily declined and levelled out at a dangerous debt-to-GDP ratio. Belgium, Italy, Ireland, Canada, Greece, and Japan have all dealt with gross debt shocks close to or in excess of a hundred per cent of GDP in the past three decades.

Recognising these pre-crisis developed fiscal problems is an important distinction for Greece and Italy with other countries that experienced the worst of the crisis. Unlike many of states, Greece and Italy conform to the “fiscal hypothesis,” that periphery countries were heavily exposed to the effects of the crisis and speculation due to their reckless fiscal records before 2008. Careful analysis draws a distinction between two types of sovereign debt crises: private follies in banking or construction becoming public liabilities; and state profligacy metastasising into a widespread crisis. (Stein 2011) Greece and Italy subscribe to the second view and it is this latter scenario that is far more complex – with the bailout requiring significant coordination to support the dual problem of complexity and contagion. (Zahariadis 2012: 114) This is also true for the consequent policy measures to address the underlying inherent problems of the states, with complex and deep reforms necessary. This, therefore, stresses the need to select states with similar preconditions with the crisis, just as Greece and Italy demonstrated.

Figure 18: General Government Gross Consolidated Debt in OECD countries percent of GDP.

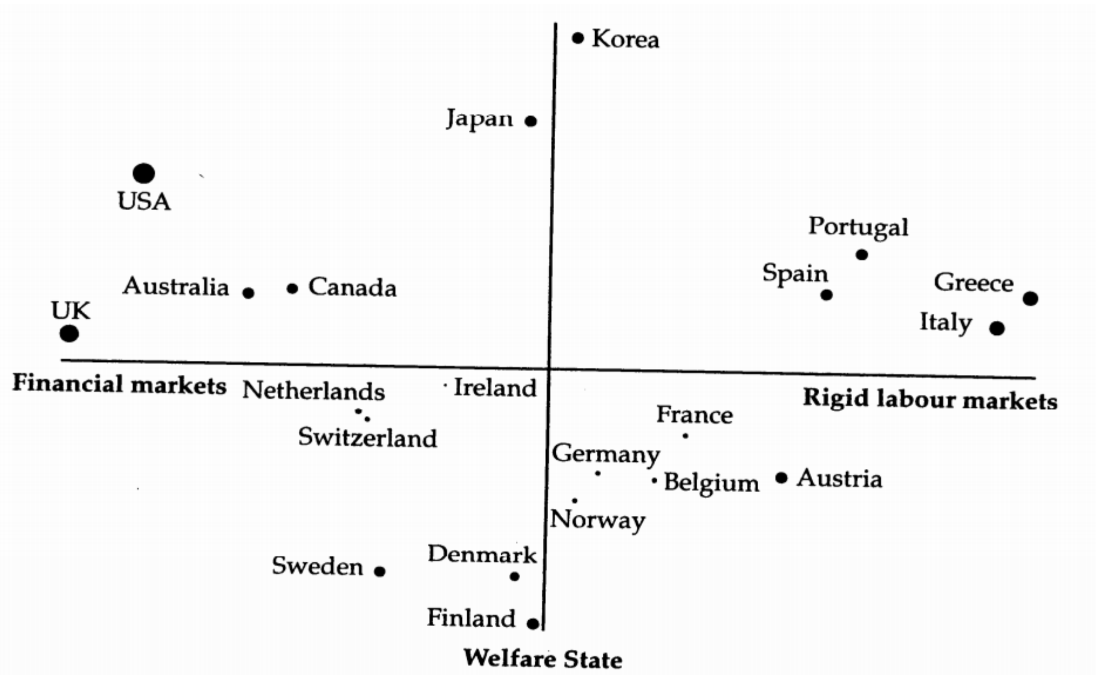


Source: AMECO

On a simplistic level, the cases here were selected striving towards relative similarity based on region and culture (Dogan and Pelassy 1990). The purpose of seeking relative similarity is to avoid one of the most common pitfalls of comparative analysis, selection bias. King, Keohane, and Verba (1994) identified this form of bias as posing 'dangers' for research; Geddes (1990) feels it is a problem with which various subfields are 'bedeviled' through assessing how the cases selected affect the answers you get; whilst Achen and Snidal (1989) consider selection bias as one of the 'inferential felonies' that has 'devastating implications.' Essentially, selection bias is the focus on exceptional cases that typically represent the actual instance of the outcome being studied. This will distort results of the analysis, producing biased estimates of causal effects. (Collier and Mahoney 1996: 59)

Thus, bearing this in mind the case studies were selected based on a number of similar factors. Firstly, they are both drawn from Southern Europe and have developed Southern European Capitalism (Amable 2003); secondly, they had a similar background with regards to the crisis – insomuch they were seen as profligate; thirdly, they both demonstrate clientelist qualities. The holistic approach of Amable (2003) employs a cluster analysis within his work to offer a typology of five ideal types of capitalism. Amable proceeds with deductive and inductive statistical approaches to differentiate between the various types of capitalism that exist. It is assumed that Greece and Italy, as can be seen in Figure 3, have developed a very similar capitalist structure existing in what has been labelled Mediterranean capitalism or Southern European capitalism.

Figure 19: Types of Capitalism



Source: Amable (2003)

Building on this analysis, Amable (2011) studies the nature of the relationship between the reaction to macroeconomic shocks in discretionary fiscal policy and the type of capitalism in a country. His analysis advances the view that types of capitalism have a profound effect on fiscal policies chosen and reaffirms the methodology chosen to utilise comparative analysis of similar cases.

Further, in political economy, there are a number of advanced analyses on the institutional complementarities that outline institutional frameworks. Pagano (2003) looked at the notion of property rights and Aoki (2001) put forth a theoretical framework that is based on a comparative perspective able to analyse institutional complementarities. Aoki et al. (1997) began by adapting the perspective from a firm-based study of institutions to an economy-wide perspective, which added the role of the state. However, the most notable theory in the field is that of *Régulation.* This school follows a taxonomy of relevant institutional areas, and has proven adept at analysing the diversities of “Fordist” regimes as well as the different patterns of evolution towards “post-Fordist” finance-oriented regimes. It was from this foundation that Amable extended this comparative perspective to the national innovation regime, the most notable quantitative study is Amable (2003), which systematically elaborated the data connected to the regulating activity of institutions in 18 OECD countries and identified five main types of capitalism.

This study of institutional differences of capitalist economies is significant for the concerns of economic dynamics. The institutional configuration of a state indicates how different parts of the economy are co-ordinated and also allows for an understanding of the functional role of specific institutions. Similarly, it determines some limits and rigidities to actors’ strategies as well as constraining actors’ choices by defining the direction for the best opportunities. Consequently, by understanding this typical form of coordination it is possible to analyse how increases in productivity occur and how they then diffuse through the economy. (Rangone and Solari 2010: 4) The fundamental theoretical argument derived from this analysis is that some complementarities and hierarchical order exist between institutions and that this contributes to creating typical configurations. Thus many scholars stress that institutions framing international relations demonstrate a clear and important role in the dynamics of institutional change.

The theoretical point that is important in terms of this research, is that institutions are seen as political compromises between the main interests at stake. Pagano (2010) argues that institutions define some specific 'economic entitlement and obligation' which shapes economic coordination. On a domestic level, domestic institutions can be seen as mediators to European integration and globalization. These domestic influences have a profound and unique impact upon the consequent policy-making process of that particular nation-state. Variations in domestic responses to European policy may be explained by variations in national political systems differentiating among statist, strong neo-corporatist political systems or intermediate neo-corporatist systems. (Menz 2005) Similarly, domestic change can vary depending on the states institutional capacity, policy preferences and policy legacies; whilst similar variations should be expected across policy sectors according to the degree of specification of EU-level institutional and policy decisions and according to the vulnerability of national policy sectors to increased global competition (Schmidt 2002). Therefore, inherent institutional differences that have developed and evolved are unique to each nation and must be considered in the theoretical framework for the analysis of fiscal policy.

In academia, Southern European capitalism has attracted less scholarly attention than other varieties. The primary concern is actually whether this type of capitalism actually "makes sense" or if it merely should be characterised as a "dysfunctional" variety of the continental model (Della Sala 2004; Andreotti et al 2001), being the consequence of unachieved or belated institutional transformation. (Fua 1980) A second issue is how institutions develop over time and how the extent to which they are able to be defined by the politics of reform. This is where the literature of variety of capitalism meets with the debates on late development and backwardness, which at the time was concerned with these precise states – the PIIGS. As a result, Southern European capitalism is defined in historical and not strictly geographical or political terms.

The model of Southern European capitalism includes an underdeveloped corporative welfare state, which has not developed a system of protection from the risks of a developed industrial economy, most notably for unemployment. Such economies rely on the family as an institution for assistance and redistribution, which could be why there has developed such a generous pension system and strayed from the pattern of providing universalistic healthcare. Thick market regulation and relatively rigid labour markets also define the system. The financial system is largely based on bank credit; whilst the stock exchange is underdeveloped and highly speculative. (Deeg 2004)

These economies have developed an industrial structure based on traditional sector with a dualism of economic organisation between large corporations, that may be state-owned, and small clusters of private firms. (Garofoli 1992) Furthermore, typically research and development in the science and technology sectors are rare. Gamvarotoe and Solari (2009: 34-35) have demonstrated that such structure often displays regionally unbalanced growth. With uneven population distribution, per capita GDP and employability are seen to be concentrated and low on average. Household income and unemployment levels vary greatly amongst regions, even despite the actions of welfare institutions. Economic patterns of growth are spontaneous, with specific effects for different regions; low labour mobility; and little redistribution amongst regions. A final distinctive feature is low labour productivity at the periphery. (Rangone and Solari 2010: 5)

The fact that both nations are known for possessing clientelist tendencies is important, since clientelism has the potential to distort policy-making. It is now recognized that clientelism extends beyond the mere exchange of the votes and has the capability to permeate organizations with the ability for collective action, such as labour unions (Trantidis 2016). Evidence demonstrates that politicians will avoid policy that deprive their client groups of collective and personal benefits, which is known as a clienteist bias to policy-making (Ibid). These qualities are firmly embedded in each political system, albeit more prominent in Greece, and with respect to the approach of this paper have a critical role: in possessing the capability to exacerbate domestic influences within the policy-process (Monastiriotis 2013; Trantidis 2016).

Similarly, integration has brought regulatory changes and implemented new frameworks in these areas that are most interested in social costs – labour protection and the environment. Originating in the 1980's with Commission intervention (Eichener 1997), it was exacerbated during the 1990's with pressure from globalisation that forced these countries into a new competitive environment, resulting with serious problems of "economic identity" (Ribeiro 2005). European competition policy, encouraging the dissolution of market regulation, increased competitive pressures and forced the convergence of various institutions whilst limiting defensive institutional evolution within countries. Both Greece and Italy found it difficult following the growth pattern of continental economies, such as Germany and France, whose production specialisation is much more structured. In fact, their labour-intensive production foundations came under severe pressure from Eastern European industries and

East Asian low cost production, there was an alarming competition problem within the system. Whilst Greece have caught up, they have done so following an unbalanced growth model founded entirely on debt and the housing bubble; Italy, on the other hand, remain struggling in the new context despite being classified as a developed economy. (Reis 2010) The result of integration is that these countries had to abandon the “Continental” model and embrace the “neo-liberal.”

2.8 Varieties of Liberalization

This work attempts to evaluate the patterns and path of reform during crisis in Greece and Italy, in particular to account for the role of domestic political factors in policy-making. In doing so, it is necessary to utilize a systematic use of the Varieties of Capitalism literature in order to analyse countries crisis response. This work applied such an approach in the case selection, but it is necessary to apply a more intricate framework for the appreciation of policy responses. Therefore, the work adopts Thelen’s interpretation of Varieties of Liberalization.

Upon creation of the EMU, neofunctionalist logic argues that to realize the potential of a monetary union, and ensure employment and growth, labour market flexibility is a necessary quality. According to this understanding, the neoliberal paradigm was solidified in Europe as both the EU and financial markets pressured states to implement an agenda of liberalization to deregulate labour markets. This process was significantly enhanced during the financial crisis as the design flaws of the EMU were realized and improving the competitiveness of the crisis countries became a priority.

However, in spite of this homogenous pressure for reform, there has a been a clear divergence in the patterns of reform of Greece and Italy. Adopting an adaptation of the VoC literature enables a more effective framework to understand these processes. Varieties of liberalization breaks with the traditional dichotomous, structural variables of the literature and applies greater attention to coalitional foundations on which political-economic institutions rest (Thelen 2014). The approach understands that 'institutions that in the past supported the more egalitarian varieties of capitalism survive best not when they stably reproduce the politics and patterns of the Golden Era but rather when they are reconfigured—in both form and function—on the basis of significantly new political support coalitions' (Thelen 2012).

This approach is also consistent with the wider literature on labour market reform and liberalization during the crisis. For instance, Picot and Tassinari (2017) apply the logic to the cases of Italy and Spain and find two striking results: firstly, in spite of uniform intense austerity pressure, different trajectories of labour market reform are possible; while secondly, despite pressure from international markets and EU, domestic politics still matters. The term liberalization is too encompassing as a means of analysing developments (Hall and Thelen 2009: 22-24). Equally, it is critical to understand political dynamics of domestic political preferences and political-coalitional alignments that underline policy-making for liberalization. Liberalization is generally a battle pitted along class lines, which sets organized labour against employers. Finally, there are distinguishable trajectories of liberalization: it may take the form of deregulation, as favoured by LME's; dualization, particularly in continental economies; or as socially embedded flexibilization, often seen in Scandinavian cases. Ultimately, while distinguishable, all will have been impacted by social coalitions based on the implications for distribution and other outcomes (Thelen 2012: 9).

Deregulation is the active dismantling of coordinating capacities on both sides of the class divide. Within this, mechanisms of collective labour are progressively dismantled in favour of an arrangement that imposes "the market." Dualization refers to the differential spread of market forces. This process should favour "insiders" as the status-quo is maintained, while atypical and precarious sectors of the economy will grow due to reductions in protection for labour-market outsiders (Rueda 2007; Emmenegger et al. 2011). Deregulation involves a neoliberal attack; dualization witnesses an increase in cooperation between labour and management in core firms that leave other firms and workers behind (Thelen and Kume 2006). Finally, embedded flexibilization is a combination of market-promoting labour market reform, which also introduce social programs to ease adaptations, particularly for weaker sectors. Protection generally remains high, the major emphasis of the policy is integrating individuals into the market. The success of embedded flexibilization often relies on strong employers' associations (Martin and Swank 2012) and are founded on increasing flexibility by increasing mobility vis-à-vis training and increasing skills.

The above highlights divergent trajectories of reform; however, taking a domestic politics approach stresses a political-coalitional understanding of how policies are created. This understanding moves the framework away from a dichotomous perceptive of whether economies are merely strategic or market coordinated, to one that appreciates the interest group configuration and one that respects the political dynamics and legacy of policy choices of that state. For instance: where organized interests and producer-group politics continue to be dominated by manufacturing, and where public policy continues to be organized strongly around the specific interests of industry, the dominant trajectory of change is often toward increasing dualism (Thelen 2012: 15). On the other hand, where vulnerable groups are well organized and included in the institutionalized decision-making process, both producer-group politics and electoral dynamics may result in reform coalitions. If other interests are entrenched in the union movement, and in partisan competition, there will likely be sufficient pressure against dualization for policies that embed flexibilization in compensatory social policies.

This above framework draws from all key theoretical disputations for understanding policy-making and liberalization trajectory. It is argued that institutional change is the result of strategy, coalition, and constraint. From power-resource theorists, it provides the insights that employer interests are conceived around the fact that the organization of labour is a pivotal factor by which they must organize their strategies. Secondly, from dualism the perception heeds the advice that contemporary market trends could complicate the unity of labour and result in a differentiated impact on workers across different sectors and positions in the market. Finally, drawing from corporatism theorists, the logic is that strong employer organization is a precondition for social solidarity.

Thelen argues that egalitarian capitalism can present an innovative and flexible alternative to neoliberal capitalism. Central to this is the common trend of flexibility and the expansion of part-time work, coupled with smoothening mechanisms for the improvement of income and security at the lower end of the labour market. This is a strategy of embedded flexibilization that should present a viable path towards equitable capitalism and reform. Whether this occurs is founded on a two basic characteristics, of whether employers are willing to abandon institutions of coordination and/or whether labour is sufficiently powerful to resist pressures of liberalization; or, indeed, whether employer coordination is good or bad for social solidarity (Ibid: 7).

2.81 Implications for Research

The research here has several advantages. Through striving for relative similarity, the research follows the strategy of what Naroll (1968) calls studies of 'concomitant variation.' This is the view that studies which are based on systems as similar as possible with as many features in common as possible will provide the optimal analysis and results for comparative inquiry. (Przeworski and Teune 1970: 32) This also helps to tackle the well-known problem to comparative research, namely ‘many variables, small-N’ (Lijphard 1971: 686). This problem may result in the ‘causal overdetermination’ as several explanations remain viable after all irrelevant factors have been removed. Indeed, as Ragin (2000) concludes, there may not be any single cause of a particular outcome. Domestic politics are not just objects of fiscal policy, actors within this have a prominent role in the process. By comparing cases that share many economic, political, and cultural characteristics; and therefore eliminating “experimental” variables, this research design is a “maximum” strategy. (Przeworski and Teune 1970: 32) Thus although there may be differences that occur, given the nature of different otherwise similar cases, then the number of factors attributing to these differences should be sufficiently small in order to be affected by those differences alone.

2.9 Summary

This chapter has presented the literature on fiscal policy and domestic politics, relating the two concepts and applying them to the demise of the SGP. Much of the research following the financial crisis on fiscal policy and coordination has been dominated by economists. This work intends to bring analysis back to the realm of political economy and apply the often overlooked concept of domestic politics to fiscal policy analysis. It has been shown that domestic politics has a profound effect on the decision-making structure of nation-states and has the ability to interfere with supranational legislation and policy similarly. The chapter outlined the various forms of fiscal policy in relation to domestic politics as analysed by David McKay, it then applied an alternative perspective of domestic politics to the demise of the SGP in 2003, as seen in Talani (2014), to exemplify this theory.

The chapter then undertook a theoretical discussion on the predominant frameworks for analysis of crisis decision-making. It contrasted and evaluated the predominant materialist view, with particular emphasis on Gourevitch, highlighting its ontological and theoretical shortcomings from a constructivist perspective. It stressed the limited contextual nature of materialist views and the inherent weakness in failing to recognise intersubjective understanding of domestic agents. Further, the chapter contrasted the theoretical underpinnings against that of Schirm's government preference formation model in order to qualify its worth with this researches key aims.

Following these insights, the chapter set out the theoretical framework to be used in the research. Utilising a society-centred theory of government preference formation, the work highlights three central variables that have an impact on policy decisions – namely, ideas, interests and institutions. The chapter highlighted how these variables will be later operationalised for research, whilst evaluated how they affect decision making.

The chapter concluded by outlining the methodology behind choosing the case studies. It undertook a cross-country analysis of budget deficits and periods of consolidation to identify the best case for research and argued the reasoning for comparison. It stressed the importance of utilising cases with similar socio-economic and political backgrounds and histories in order to fully understand the similarity of domestic politics influence and how it may be different in similar settings. While lastly, the section considered implications of the research from utilising the adopted research strategy.

3.1 Greece

This work presents a comparative analysis of the public policy process and institutional reform patterns of Greece and Italy through the financial crisis by utilizing a domestic political framework inspired by Schirm (2009; 2011; 2013; 2015). This work intends to take the framework a step further, through providing a detailed analysis of both ideas and interests in conjunction with an evaluation of their respective influence in both nations. Based on the Varieties of Capitalism (VoC) literature, both nations demonstrate similar socioeconomic construction, and yet while different, had a convergent response to the crisis and treated as if the same by the financial markets. However, the subsequent policy developments and institutional change undertaken, although being guided by supranational intervention, is markedly different.

Therefore, this paper proposes that powerful societal considerations have impacted policy-making and implementation during the crisis. It follows previous research on policy making and institutional change under EMU that argues an understanding of the domestic effects is crucial, as well as the mechanisms at work and temporal causal sequences (Dyson 2001). In doing so, the work is consistent with post-functionalist findings that stress the growing prevalence of European issues in the domestic arena, particularly Hooghe and Marks (2008: 21-23) whom postulate they expect to see a restriction on the level and scope of integration, a limitation of governments' policy manoeuvrability, and a lack of functionally efficient and politically viable policy. In supporting this position, the work also presents a critique of Schimmelfennig's (2014) argument that there has not been a postfunctionalist moment. In addition, the work seeks to elaborate upon findings by Theodoropoulou (2014) who notes that the varying effectiveness of European intervention is not due to exogenous factors, but instead shaped by domestic politics and institutions. Therefore, the central premise is that a convergence of domestic interests and ideas challenged the policy process and mitigated European pressure for reform. The work looks to address why there has been such variation in progress through the crisis by correlating the positions of domestic interests and ideas against the positions and actions of government. The work will conclude with a discussion of future prospects for European integration and crisis management and an evaluation of the findings.

3.2 Outline of Research

To begin, the chapter will reiterate the core hypotheses and their derivation, to better understand the focus and process of this research.

H1: That there has been a continued politicization of public opinion vis-à-vis the European Union.

H2: The perception of crisis management in the public sphere is crucial, whereby a perception of ineffective policies and a supranational imposition has contributed to the deterioration of socio-economic fundamentals, which has been a catalyst for declining public sentiment.

H3: This deterioration of public opinion has been matched by vehement opposition from domestic interests – namely the trade unions. Thus, societal interests and ideas have converged during the crisis, forming a prominent obstacle to effective reform.

H4: Extensive focus on labour market reform has played a defining role in societal considerations. Both the unions and public opinion are expected to oppose measures, while the employers should favour reform.

H5: Consequently, it is hypothesised that government preference formation has been consistent with the positions taken by domestic interests and ideas, and that both policy decisions and their subsequent implementation have been impacted by domestic politics.

In adopting a postfunctionalist perspective and domestic politics framework, the research seeks to evaluate the extent and source of politicization in order to not only understand how extensive this has been, but also in what areas has there been the most conflict for the public. This is illustrated in H1 and H2, whereby the work shall quantitatively illustrate the extent of politicization and in what specific areas the public has attributed blame to the EU. Further, it is not just the public that have a role in government preference formation but also domestic interests, in the form of trade unions and employers' associations. These are critical actors in Greece and Italy, given the clientelist nature of their systems that ensure inherent patronage links between the government and affiliated actors. Thus, H3 is concerned with assessing the focus of their agenda and how that should be aligned with that of the public's opposition that exacerbates societal pressure on the state. H4 considers the heart of societal conflict with the EU. The major focus of supranational pressure throughout the EMU, but particularly during the crisis, has been labour market reform, with the EU favouring liberalization. It is suggested that this conflicts with the demands and wishes of the electorate and the domestic interests, which should see the greatest level of politicization focussed on these types of reforms. Finally, the heart of the research concentrates on how these domestic political influences may have impacted government preference formation, particularly illustrates through the lack of implementation of certain measures, or the targeted approach to implementing reform that may disproportionately affect certain sectors of the economy.

Therefore, in order to determine the extent of societal influence, it is necessary to utilize both extensive qualitative and quantitative analysis to determine both the positions of domestic interests and ideas, while correlating these to the stated position of government as well as the Troika against the subsequent policy developments that have occurred throughout the crisis. The work adapts the societal theory of government preference formation inspired by Schirm (2011; 2013; 2015).

More specifically, the work shall proceed first by evaluating domestic ideas through the financial crisis. The work conceptualizes domestic ideas as *ideas as attitudes* (Schirm 2011; 2013; 2015). Ideas as attitudes is assumed to represent the public's position on the manner by which politics manages the economy. These positions are developed and analysed through two key means: firstly, in a simple fashion, by considering public opinion data specifically concerned with government policy positions – indicating value-based societal expectations; while secondly, through a multi-level binary logistic regression that disaggregates data to an individual-level. The latter is suggested to present a detailed evaluation of the public's perception crisis management.

The work shall overview the methodology of this process before presenting the results. The regression analysis supports the hypotheses for both that there has been considerable politicization of public opinion, and equally that labour market reform has been a prominent conflictual element of policy measures. It is shown that over the crisis, public opinion has deteriorated substantially both with regards to socio-economic conditions, as is to be expected, but also against expectations. The latter is particularly important since it acts as an indicator of the perception of policy, insomuch that declining expectations and trust indicate an opposition to policy measures, both from an ideological perspective and due to a recognition of the ineffectiveness of crisis management.

Following this evaluation of domestic ideas, the work shall proceed by analysing domestic interests. Domestic interests are conceptualized as sectoral material considerations, whom display a simple cost-benefit calculation based on economic conditions and policy. Thus, domestic interests are operationalized through an assessment of trade unions and employers associations' positions, which are deciphered both by an analysis of public statements and a correlation of public action to these motives. Further, to fully evaluate the ultimate impact of interests both exaggerating and limiting factors must be considered. Therefore, the work shall present the theoretical considerations of the political economy of forced reform, highlighting the importance of unilateral decision-making through conditionality. Equally, the societal contribution to grass-roots activity with precariousness will be presented to provide an assessment of the significance of such movements, which act as a new form of domestic interest.

Given this understanding, the results shall be summarized and considered briefly against the political economic developments in Greece. It is suggested that a lack of compliance, ineffective policy, and limited implementation all can be derived from societal considerations acting in opposition to the policy process. Further, the election of SYRIZA and subsequent political tensions can also be directly attributed to the severe pressure of unified positions between domestic interests and ideas.

The final section shall conclude this research chapter by discussing the results. There are a number of important qualifications that will be assessed, whilst potential future developments will also be considered. The final point of contention is the recognition that these results in fact support postfunctionalism to a certain extent, and thus conflict with the critique of Schimmelfennig (2014).

While this methodology presents an effective evaluation of domestic political positions and influence, it must be recognized that it does not imply other factors were not prominent in government preference formation. More that, the divergence of policy decisions throughout the crisis cannot be understood without an appreciation without discussing the relevance of societal considerations.

Domestic Ideas

3.3 Methodology

In analysing domestic ideas, this work presents a novel approach through attempting to demonstrate the extensive politicization of public opinion vis-à-vis the European Union. It is crucial to appreciate how public opinion changes, rather than utilizing a snapshot of reality. Essentially, knowledge provides the basis for public opinion alteration, both of circumstances and of political processes. Visser, Holdbrook, and Krosnick (2008: 129) argue that there are two predominant means of obtaining information: either, directly through experience – i.e. witnessing the effects of the socioeconomic decline; or, indirectly via exposure to information in the media or with other people. The latter point is particularly important when considering public activism, however the former has acquired significant importance with the politicization of European issues as for the first time public economic welfare has become association with attitudes towards European institutions.

Therefore, this work utilizes a novel approach in a similar vein to Braun and Tausendpfund (2014) by evaluating the evolution of public opinion in a diachronic context. This is in contrast to traditional public opinion analysis that generally contrasts two distinct episodes (e.g. Armingeon and Ceka 2013). The methodology seeks to decipher the actual material implications of both the crisis and subsequent policy decisions on public opinion through using a multi-dimensional approach. The work presents a multi-level logistic regression, correlating public opinion against both domestic and European institutions with respect to individual-level and contextual indicators, both current and expectations. A combination of individual-level impact and future individual-level expectations are suggested to represent crisis management, insomuch that economic fundamentals and future expectations are related to the perception of how the crisis is being managed. This analysis intends to demonstrate that economic explanations of politicization remain prevalent and have even intensified during the crisis, in line with a similar stance of Serricchio, Tsakatika, and Quaglia (2013), but opposing the recent dominance of identity-based approaches to European integration (e.g. Carey 2002; McLaren 2004, 2006, 2010).

The data on public opinion has been drawn from Eurobaromoter surveys (2004-2015). There are clear advantages to utilizing this source, particularly Eurobarometer surveys provide both a consistent source of data, conducted biannually, whilst also offering a wide range of indicators. In addition, this consistency enables an effective retrospective analysis as well as ensuring recent data. It should be noted that not all questions have been asked consistently, with no discernible pattern for when they were asked or not.

Extending these findings, faith in institutions is also correlated against socio-economic conditions, such as the rate of unemployment or GDP, which has been obtained from sources such as Eurostat, AMECO, and OECD.stat. Further, the reasoning for utilizing this extended period for the data range is two-fold: firstly, to highlight the earlier process of politicization that begun in Greece; secondly, to provide greater consistency across time to the data – while utilizing the crisis years alone may provide an indication of the hypothesis, the extremity of the period could lead to the results being slightly biased. Indeed, this work utilizes and supports earlier important contribution that highlight economic material considerations as prominent sources of political support for European integration (Anderson and Reichert

1995; Castles 1998; Eichenberg and Dalton 1993, 2007). The final characteristic of this methodology is the use of semi-structured elite interviews, which shall be placed to provide primary supporting perspectives.

The findings of this work reinforce earlier ambitious conceptualization of Hooghe and Marks (2008), whom developed a postfunctionalist theory of integration that suggests the growing politicization of European integration can be seen through the role of public opinion, identity, and political parties in the process. The theory attempts to reflect the process of integration as the context has shifted definitively from a ‘permissive consensus’ to one of a ‘constraining dissensus’ (Schmitter 2008). In doing so, the work conflicts with the extension of Schimmelfennig (2014) who postulates that the financial crisis does not represent the characteristics of a ‘postfunctionalist moment,’ instead that the decision-making process has been successfully shielded against the unprecedented politicization of European integration. The evidence also suggests that Armingeon and Ceka (2013) original conclusion that there is a weak relationship between the crisis and EU support is understated.

The empirical analysis will proceed in two stages. Firstly, a descriptive analysis of public opinion in Greece will be conducted, presenting aggregate perceptions of how the public feel the government’s role should be in managing the economy (Schirm 2013). Data from Pew Research Centre and the World Value Survey will be utilized to overview these respective stances. The final stage of the analysis presents a multi-level hierarchal binary regression of EU trust. Logistic regression employs binomial probability theory using the maximum likelihood method and presents the results of the regression in the form of an odds ratio. Logistic regression also accounts for levels within the data, separating the individual level from the contextual, as well as appreciating socio-demographic controls.

3.31 Dependent Variables

To operationalize trust the work utilizes the following consistent questions from the surveys:

'Do you trust the European Union?'

'Do you trust the national government?'

The questions present an effective appreciation of public sentiment and support towards both supranational and domestic institutions. Trust in national government has been selected as the variable deemed to best represent faith in national institutions given the clientelist nature of Greece. Similarly, given that Greece has been subject to conditionality, the government specifically plays an even more important role in negotiating with the EU and Troika. The consistency of these questions across barometers, and the ease of interpretation from a public perspective, means these questions are an accurate indicator of public opinion. Further, there is a distinct lack of 'don't know replies', which grants greater credibility to the variable. The work neglects "Don't Know" answers, coding 1 for "Don't Trust" and 0 for "Trust."

It should be qualified, however, that trust may not be synonymous with wider support for the integration project. Trust in itself is an abstract concept, which in this work is presumed to relate to the management of the crisis and how effectively the public feel either institution reflects their interests and has a beneficial role in improving socio-economic conditions. It is possible, in fact almost certainly, that in spite of a lack of trust the Greek public recognize the predicament of their country and understand leaving Europe is not an option. Therefore, trust and support may not necessarily be synonymous, yet utilizing trust presents a more accurate conceptualization of whether the public will support proposed measures. Thus, considering the wider implications of politicization on the integrative project is a more complex task.

3.32 Independent Variables

In seeking to analyse the public perception of crisis management it is necessary to correlate both current socio-economic conditions, actual and perceived, as well as future-level expectations of the public. The work aims for consistency across both current and future-levels, utilizing similar indicators for both levels. For current-level indicators, questions of life satisfaction, personal financial situation, personal job situation, country employment situation, and economic situation are utilized. These variables are categorical in nature, operating on a scale of 1 to 4, from very satisfied to not satisfied at all. Similarly, these same indicators are utilized for future-level expectations, except these expectations are ranked on a scale from 1 to 3, indicating whether the person in question believes the situation will be better, worse, or the same in the year to come.

The model also introduces important macroeconomic observations in the form of contextual or country-level variables. The work selected the unemployment rate and GDP per capita as deemed to be the most impactful and directly observable from a public perspective. This country-level aggregate data is presented to account for actual socioeconomic changes, but selected specifically as having the most direct impact upon personal welfare.

3.34 Control variable

The models purpose is to analyse the consistency of public perceptions of socioeconomic conditions and future expectations against support for either the EU or domestic institutions. Thus, a controlling factor is the perception of democracy, given that it has been suggested European institutions do not consider the interests of citizens (Pew Research 2014), and that traditionally faith in domestic democracy in Greece is notoriously low. Yet, while potentially related, it is crucial to distinguish the perception of policy from actual socioeconomic outcomes. While controlling for democratic perception is critical for analysing politicization as a result of socioeconomic changes, the correlation of democracy and public sentiment is also an important contribution to this works findings. Therefore, the control variable is included into the model on a separate level.

Equally, the work controls for important socio-demographic characteristics. It has been observed that both women, for instance, are generally more reserved to European integration (Nelson and Guth 2000); while younger respondents have previously been more open to adopting supranational identity (Jung 2008). Thus, the work controls for age, education, occupation, and gender.

The tables below summarize the coding utilized for the variables as well as outlining the descriptive statistics for the collected data.

Table 5: Variable Coding

Variable	Measurement
Trust in EU	1 if answered "tend to trust", 0 if answered "tend not to trust", missing if answered "don't know"
Trust in National Government	1 if answered "tend to trust", 0 if answered "tend not to trust", missing if answered "don't know"
Sex	Dummy variable (1 = female, 0 if male)
Age	Recoded into four groups. Dummy variables: 15-24, 25-39, 40-54, 55 years and older
Occupation	Dummy variables: self-employed, managers, manual occupation, non-manual occupation, other (retired, student, unemployed and house person). The ‘other’ group forms the reference category.
Education	Measured as the age a respondent finished full-time education. Dummy variables: aged 15 and under, 16–18 years, 19 and over, still in education. Those who left education aged 15 and under are the reference category
Life Satisfaction	4: very satisfied, 3: fairly; 2: not very; 1: not at all
Future Employment Expectation	3: same; 2: worse; 1: better
Future Life Expectation	3: same; 2: worse; 1: better
Future Personal Job Expectation	3: same; 2: worse; 1: better
Future Economic Expectation	3: same; 2: worse; 1: better
Future Financial Expectation	3: same; 2: worse; 1: better
Employment Situation	4: very bad; 3: rather bad; 2: rather good; 1: very good
Personal Employment Situation	4: very bad; 3: rather bad; 2: rather good; 1: very good
Financial Situation	4: very bad; 3: rather bad; 2: rather good; 1: very good
Economic Situation	4: very bad; 3: rather bad; 2: rather good; 1: very good
Perception of European Democracy	4: very satisfied, 3: fairly; 2: not very; 1: not at all
Perception of Domestic Democracy	4: very satisfied, 3: fairly; 2: not very; 1: not at all
Unemployment	National unemployment in percentage points, 6-month average prior to the survey fieldwork
GDP	GDP in $USD, 6-month averager prior to survey fieldwork

Tables 6: Descriptive Statistics

All Years					
Variable	Obs	Mean	St. Dev.	Min	Max
Trust in EU	24015	0.56	0.497	0	1
Trust in National Government	24015	0.71	0.455	0	1
Sex	24015	0.54	0.499	0	1
Age	24015	2.85	1.051	1	4
Occupation	24015	3.83	1.548	1	5
Education	23913	1.85	0.941	1	4
Life Satisfaction	23996	2.61	0.862	1	4
Future Employment Expectation	23739	2.14	0.579	1	3
Future Life Expectation	23654	2.21	0.78	1	3
Future Personal Job Expectation	22301	2.5	0.711	1	3
Future Economic Expectation	23751	2.13	0.604	1	3
Future Financial Expectation	23772	2.28	0.705	1	3
Employment Situation	19980	3.56	0.616	1	4
Personal Employment Situation	11393	2.96	0.853	1	4
Financial Situation	16934	2.9	0.794	1	4
Economic Situation	19991	3.52	0.641	1	4
Perception of European Democracy	15103	2.81	0.875	1	4
Perception of Domestic Democracy	15982	2.89	0.911	1	4
Unemployment	24015	15.78	7.63	7.73	27.7
GDP	24015	-1.36	4.34	-8.9	5.5

Crisis Years					
Variable	Obs	Mean	St. Dev.	Min	Max
Trust in EU	11812	0.75	0.433	0	1
Trust in National Government	11794	0.85	0.357	0	1
Sex	12014	0.52	0.5	0	1
Age	12014	2.85	1.022	1	4
Occupation	12014	3.81	1.565	1	5
Education	11971	1.59	0.785	1	4
Life Satisfaction	12021	2.84	0.873	1	4
Future Employment Expectation	11914	2.09	0.524	1	3
Future Life Expectation	11807	2.27	0.669	1	3
Future Personal Job Expectation	10810	2.45	0.654	1	3
Future Economic Expectation	11893	2.11	0.557	1	3
Future Financial Expectation	11856	2.24	0.614	1	3
Employment Situation	12003	3.76	0.46	1	4
Personal Employment Situation	9277	3.02	0.839	1	4
Financial Situation	11966	3.01	0.775	1	4
Economic Situation	12007	3.72	0.5	1	4
Perception of European Democracy	9543	3.04	0.829	1	3
Perception of Domestic Democracy	10003	3.19	0.802	1	3
Unemployment	12014	22.35	5.38	11.76	27.7
GDP	12014	-4.179	3.214	-8.9	0.7

Source: Eurobarometer; Eurostat; OECD

3.4 Public Opinion

The first step in the identification of domestic ideas is to present a descriptive analysis of public opinion and domestic ideas. This work utilizes data from public opinion surveys to identify the core principles that the Greek public feel the government should adopt and the priorities in addressing the crisis. These findings will then be briefly considered against the relative position of the government over the period, through a brief consideration of public statements and declarations that symbolize the states attitude to crisis policy.

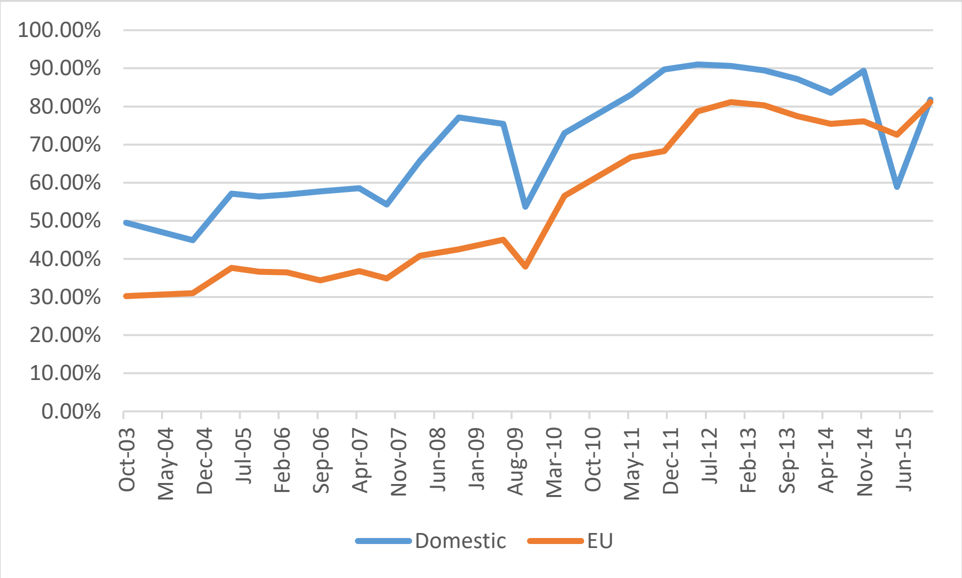
Table 7: Domestic ideas as attitudes: public positions on crisis management

Most important problem to address first:	
Public Debt	17%
Job Opportunities	52%
Rich-poor gap	8%
Best way to solve economic problems:	
Spend more money	56%
Reduce government debt	37%
Perception of EU	
Intrusive	86%
Inefficient	67%
Does not Understand needs of citizens	85%

Stay with Euro?	69%
Not enough financial support	74%

Source: Pew Research Centre 2013; 2014.

Figure 20: Trust in Institutions, 2003-2015



Source: Eurobarometer 2003-2015

The above table indicates the key principles held by society with regards to policy and European intervention. It is particularly evident that in spite of clear troubles of public debt, the public felt greater spending is necessary and urged both the government and EU to stimulate the economy, which should be supporting the major concern of job opportunities as the fundamental priority. In addition, given the manner by which policy has been conducted in Greece, the people have developed a negative sentiment towards European intervention, but in spite of this do feel that staying in Europe is best for the country. It is clear that the people remember the benefits that European membership has brought to the country, while the idea of being European is highly valued, as stressed by Mr. Massourakis in our interview. The government, therefore, has a dilemma in attempting to satisfy the Troika but appeasing the public. This is evidenced by the figure, which reflects the rapid evolution of distrust towards both national and supranational institutions. Historically trust towards the national government is low, given the corrupt and self-serving nature of parties, however, following the crisis European distrust actually outstripped that of the national government. Similarly, this superficially reflects the basic premise that politicization may have been exacerbated during the crisis.

Corroboration of public statements by the government highlights consistency with these core public positions. For instance, in George Papandreou is quoted in an interview in 2010 stating: ‘We also need measures to stimulate growth and create jobs. Instead of collective austerity, we need global responsibility,’ and ‘there is a real danger in global austerity’ noting that while restraint may be necessary, there should be a balance with stimulus. The extensive austerity and social implications resulted in a domestic political crisis that ultimately led to the resignation of Papandreou given the dual pressure of popular discontent and displeasure of the EU (Spiegel 2014), resulting in ‘behind the scenes’ intervention by EU leaders to protect the stability of the Eurozone from domestic disturbances in Greece (cf. de la Porte and Natali 2014). Samaras also highlighted the need to avoid austerity, in fact winning election on the basis of anti-austerity rhetoric. In September 2014 Samaras explicitly stated Greece did not need another austerity package, but instead called for aid in supporting plans to boost employment and growth (September 24 2014, *Wall Street Journal*).

Economists have long suggested that unrest and potential revolution are far more possible in times of supressed income and hardships, considering the opportunity costs attached are low (Acemoglu and Robinson 2001). The clearest reflection of the capabilities for public opinion to directly affect policy is representative through electoral change. The political system in Greece has radically transformed over the course of the crisis. Both the creation and rise of fascist party Golden Dawn is indicative of the mistrust to traditional domestic political institutions, and the election of SYRZIA further reinforces the portrayal of domestic ideas, while the collapse of PASOK – support falling from 44 percent in 2009 to 4 percent in 2015 – epitomising the lost faith in politics of the electorate. When asked whether public discontent has affected a government seemingly willing to adopt EU initiatives, Mr Massorakis of SEV replied 'Of course' even citing the demise as the socialists as particularly symbolic of this case in point. As such, theposition of SYRIZA as anti-austerity effectively won the election, their proposed agenda reflects the core principles of public attitude in fighting austerity and opposing Europe

3.5 Empirical Analysis

Table 8:

Logisitic Regression - European Trust, All Years										
		Model 1	Model 2	Model 3	Model 4a	Model 4b	Model 5a	Model 5b	Model 6	Model 7
		Exp(B)								
Constant		3.620***	3.280***	0.69***	0.228	0.248*	0.24***	0.105***	0.170**	0.114*
Individual-level variables										
Country Employment Expectation	Better						Ref	Ref***	Ref***	Ref
	Worse						1.101	1.525***	1.497**	1.084
	Same						1.03	1.180*	1.326*	1.118
Personal Job Expectation	Better						Ref***	Ref***	Ref***	Ref**
	Worse						1.386***	1.239**	1.288*	1.490**
	Same						0.959	.885*	0.969	1.149
Economic Expectation	Better						Ref	Ref***	Ref***	Ref
	Worse						1.141	1.933***	1.596***	0.981
	Same						0.994	1.376***	1.187	0.803
Financial Expectation	Better						Ref	Ref***	Ref	Ref
	Worse						1.119	1.242**	1.136	0.964
	Same						1.14	1.098	1.134	0.991
Life Expectation	Better						Ref*	Ref***	Ref	Ref
	Worse						1.286*	1.590***	1.16	1.235
	Same						1.083	1.148**	1.059	1.265
Country Employment Situation	Very Satisfied				Ref**	Ref***			Ref***	Ref***
	Satisfied				0.147*	0.252**			0.255**	0.195*
	Not Very Satisfied				0.207*	0.350*			0.340*	0.229*
	Not At All Satisfied				0.259*	0.448			0.436	0.308
Personal Job Situation	Very Satisfied				Ref**	Ref***			Ref**	Ref***
	Satisfied				1.506	1.064			1.049	1.539
	Not Very Satisfied				2.060*	1.483*			1.356	2.135**
	Not At All Satisfied				2.376**	1.576***			1.434*	2.377***
Financial Situation	Very Satisfied				Ref	Ref***			Ref***	Ref
	Satisfied				0.819	1.422			1.315	0.706
	Not Very Satisfied				0.825	1.761**			1.501	0.673
	Not At All Satisfied				1.098	2.333***			1.864**	0.803
Economic Situation	Very Satisfied				Ref***	Ref***			Ref***	Ref*
	Satisfied				1.447	1.165			1.249	1.329
	Not Very Satisfied				0.698	1.222			1.175	0.86
	Not At All Satisfied				0.983	2.182*			1.909	1.083
Life Satisfaction	Very Satisfied				Ref*	Ref***			Ref***	Ref
	Satisfied				0.906	1.023			0.949	0.897
	Not Very Satisfied				1.14	1.396**			1.21	1.046
	Not At All Satisfied				1.232	2.154***			1.752***	1.183
Control Variables										
Gender	Male		1.108	1.085	1.06	1.102	1.099	1.115***	1.1029	1.025
Age	15-24		Ref***	Ref	Ref	Ref**	Ref	Ref***	Ref***	Ref
	25-39		1.373**	1.406*	1.175	1.096	1.212*	1.104	1.021	1.261
	40-54		1.254**	1.311	1.058	0.91	1.069	0.893	0.833	1.086
	55+		0.935	1.28	1.112	0.87	1.095	0.826**	0.783*	1.159
Occupation	Self-Employed		Ref***	Ref	Ref	Ref	Ref	Ref***	Ref	Ref
	Managers		0.772	0.778	0.954	0.934	0.957	0.924	0.955	0.922
	Other White Collar		1.084	1.075	1.21	1.105	1.177	1.135*	1.141	1.232
	Manual Labour		0.967	0.957	1.05	1.042	1.132	1.172**	1.108	1.113
	Other		1.300***	1.182	1.036	1.001	1.141	1.173***	1.08	1.137
Education	Up to 15 years		Ref***	Ref***	Ref	Ref	Ref***	Ref***	Ref	Ref
	16-18 years		0.671***	0.749***	0.893	1.022	0.911	0.838***	1.029	0.988
	19 years		0.266***	0.615*	0.83	0.917	0.808	0.707***	0.89	0.951
	Still Studying		0.716	1.149	1.478	1.197	0.984	0.794**	1.059	1.464
GDP				1.028	1.043**	0.995	0.989	0.976***	1.029	1.043**
Unemployment				1.025**	1.028**	1.076***	1.068***	1.095***	1.077**	1.039***
Domestic Trust	Do Not Trust			7.050***	6.603***		5.300***			5.889***
Domestic Democracy Satisfaction	Very Satisfied			Ref***	Ref***		Ref***			Ref***
	Satisfied			0.523**	0.504**		0.779**			0.526**
	Not Very Satisfied			0.306***	0.288***		0.490***			0.307***
	Not At All Satisfied			0.411***	0.332***		0.591***			0.326***
European Democracy	Very Satisfied			Ref***	Ref***		Ref***			Ref***
	Satisfied			3.440***	3.515***		1.818***			2.619***
	Not Very Satisfied			21.225***	20.854***		8.372***			13.715***
	Not At All Satisfied			95.683***	84.130***		31.090***			55.326***
Nagelkerke R Square			0.033	0.423	0.447	0.244	0.522	0.276	0.277	0.476

*Note: * Denotes p<0.05, ** denotes p<0.01 *** denotes p<0.001*

Table 9:

Logisitic Regression - Domestic Trust, All Years										
		Model 1	Model 2	Model 3	Model 4a	Model 4b	Model 5a	Model 5b	Model 6	Model 7
						Exp(B)				
Constant		4.881***	8.693***	0.223***	0.126*	0.679	.208***	0.326***	0.359	0.72**
Individual-level variables										
Country Employment Expectation	Better						Ref***	Ref***	Ref***	Ref***
	Worse						1.982***	2.019***	2.312***	2.295***
	Same						1.591***	1.457***	1.904***	2.038***
Personal Job Expectation	Better						Ref**	Ref***	Ref***	Ref
	Worse						0.737**	0.96	0.9	0.818
	Same						0.764***	0.785***	0.714**	0.764
Economic Expectation	Better						Ref***	Ref***	Ref***	Ref***
	Worse						2.297***	2.925***	2.537***	2.271***
	Same						1.308**	1.546***	1.594***	1.422*
Financial Expectation	Better						Ref	Ref***	Ref*	Ref
	Worse						1.078	1.266**	1.491**	1.15
	Same						0.917	1.032	1.196	1.006
Life Expectation	Better						Ref	Ref***	Ref	Ref
	Worse						1.126	1.149***	0.917	0.899
	Same						1.188*	1.110*	0.9	0.938
Country Employment Situation	Very Satisfied				Ref	Ref*			Ref	Ref
	Satisfied				0.853	0.521			0.553	1.164
	Not Very Satisfied				0.969	0.674			0.733	1.293
	Not At All Satisfied				0.823	0.777			0.82	1.126
Personal Job Situation	Very Satisfied				Ref	Ref			Ref	Ref
	Satisfied				0.796	0.872			0.866	0.814
	Not Very Satisfied				0.737	0.951			0.857	0.733
	Not At All Satisfied				0.728	1.009			0.889	0.705
Financial Situation	Very Satisfied				Ref**	Ref***			Ref*	Ref
	Satisfied				1.362	1.538*			1.357	1.393
	Not Very Satisfied				1.829	2.125***			1.653*	1.658
	Not At All Satisfied				2.221*	2.583***			1.820*	1.779
Economic Situation	Very Satisfied				Ref***	Ref***			Ref***	Ref*
	Satisfied				1.094	0.931			1.065	1.089
	Not Very Satisfied				1.676	1.609			1.516	1.485
	Not At All Satisfied				2.358	3.118**			2.542*	1.867
Life Satisfaction	Very Satisfied				Ref*	Ref***			Ref***	Ref*
	Satisfied				0.941	1.1			0.981	0.912
	Not Very Satisfied				0.857	1.371*			1.125	0.785
	Not At All Satisfied				1.242	2.269***			1.727***	1.096
Control Variables										
Gender	Male		1.038	1.065	1.045	1.049	1.013	1.072*	1.076	1.061
Age	15-24		Ref***	Ref***	Ref***	Ref***	Ref***	Ref***	Ref***	Ref***
	25-39		0.92	0.747	0.704*	0.859	0.848	0.902	0.789*	0.652**
	40-54		0.732*	0.587***	0.537***	0.659***	0.627***	0.693***	0.591***	0.494***
	55+		0.492***	0.472***	0.441***	0.523***	0.491***	0.505***	0.454***	0.379***
Occupation	Self-Employed		Ref***	Ref	Ref	Ref	Ref	Ref	Ref	Ref
	Managers		1.026	0.845	0.874	1.098	0.918	1.004	1.149	0.899
	Other White Collar		1.041	0.939	0.93	1.052	1.052	1.104	1.046	0.908
	Manual Labour		0.875	0.858	0.834	0.978	1.037	1.105	0.975	0.818
	Other		1.073	0.836	0.765**	0.856*	0.9	0.983	0.886	0.790*
Education	Up to 15 years		Ref***	Ref	Ref	Ref**	Ref	Ref*	Ref*	Ref
	16-18 years		0.643***	0.931	1.001	1.055	0.988	0.979	1.047	0.987
	19 years		0.216***	0.745	0.836	1.072	0.988	0.93	0.953	0.74
	Still Studying		0.99	1.347	1.623	2.197***	1.228	1.256*	2.005**	1.473
GDP				0.919***	0.928***	0.988	0.970***	0.945***	1.1015	0.955**
Unemployment				1.052***	1.051***	1.040***	1.040***	1.070***	1.046***	1.053***
EU Trust	Do Not Trust			6.745***	6.281***		5.32			5.866***
Domestic Democracy Satisfaction	Very Satisfied			Ref***	Ref***		Ref***			Ref***
	Satisfied			1.937***	2.000***		1.092			1.645**
	Not Very Satisfied			6.458***	6.568***		2.888***			5.088***
	Not At All Satisfied			21.962***	20.316***		6.921***			15.055***
European Democracy	Very Satisfied			Ref***	Ref***		Ref***			Ref***
	Satisfied			0.837	0.828		0.985			0.907
	Not Very Satisfied			0.495***	0.465***		0.736*			0.479***
	Not At All Satisfied			0.332***	0.285***		0.589***			0.289***
Nagelkerke R Square			0.047	0.359	0.372	0.152	0.446	0.258	0.231	0.407

Table 10:

Logisitic Regression - European Trust, Crisis										
		Model 1	Model 2	Model 3	Model 4a	Model 4b	Model 5a	Model 5b	Model 6	Model 7
						Exp(B)				
Constant		3.620***	3.156***	0.69***	0.228	3.663	0.46***	.183***	0.414	0.189
Individual-level variables										
Country Employment Expectation	Better						Ref	Ref	Ref	Ref
	Worse						1.098	1.374*	1.351	1.124
	Same						1.242	1.351*	1.374*	1.321
Personal Job Expectation	Better						Ref***	Ref***	Ref***	Ref*
	Worse						1.671***	1.479***	1.342***	1.548*
	Same						1.071	0.901	0.969	1.19
Economic Expectation	Better						Ref	Ref***	Ref***	Ref*
	Worse						1.128	2.080***	1.845***	1.09
	Same						0.912	1.555***	1.341***	0.848
Financial Expectation	Better						Ref	Ref***	Ref	Ref*
	Worse						0.978	1.179	1.129	0.83
	Same						0.983	1.074	1.157	0.9
Life Expectation	Better						Ref	Ref***	Ref	Ref*
	Worse						1.394*	1.585***	1.152	1.289
	Same						1.172	1.045	0.992	1.196
Country Employment Situation	Very Satisfied				Ref**	Ref***			Ref***	Ref**
	Satisfied				0.147*	0.147**			0.162*	0.150*
	Not Very Satisfied				0.207*	0.216*			0.219*	0.203*
	Not At All Satisfied				0.259	0.259*			0.272	0.258
Personal Job Situation	Very Satisfied				Ref**	Ref**			Ref***	Ref*
	Satisfied				1.506	1.096			1.105	1.452
	Not Very Satisfied				2.060*	1.555*			1.394	1.898*
	Not At All Satisfied				2.376**	1.613*			1.42	2.172*
Financial Situation	Very Satisfied				Ref	Ref***			Ref**	Ref
	Satisfied				0.819	1.37			1.253	0.816
	Not Very Satisfied				0.825	1.789*			1.511	0.789
	Not At All Satisfied				1.098	2.422***			1.933*	0.99
Economic Situation	Very Satisfied				Ref***	Ref***			Ref***	Ref***
	Satisfied				1.447	1.246			1.447	1.467
	Not Very Satisfied				0.698	0.994			0.982	0.714
	Not At All Satisfied				0.983	1.955			1.777	0.98
Life Satisfaction	Very Satisfied				Ref*	Ref***			Ref***	Ref
	Satisfied				0.906	1.047			0.983	0.916
	Not Very Satisfied				1.14	1.540***			1.328*	1.11
	Not At All Satisfied				1.232	2.397***			1.944***	1.193
Control Variables										
Gender	Male		1.108	1.085	1.06	1.026	1.13	1.128*	1.046	1.063
Age	15-24		Ref***	Ref	Ref	Ref***	Ref	Ref***	Ref***	Ref
	25-39		1.373**	1.406*	1.175	1.107	1.249	1.221*	1.038	1.15
	40-54		1.254*	1.311	1.058	0.886	1.101	0.981	0.815	1.008
	55+		0.935	1.28	1.112	0.784*	0.997	0.794*	0.718**	1.035
Occupation	Self-Employed		Ref***	Ref	Ref	Ref	Ref	Ref*	Ref	Ref
	Managers		0.772	0.778	0.954	0.925	0.829	0.802	0.935	0.975
	Other White Collar		1.084	0.1075	1.21	1.078	1.072	1.042	1.094	1.209
	Manual Labour		0.987	0.957	1.05	0.936	1	0.969	0.963	1.053
	Other		1.300***	1.182	1.036	0.961	1.114	1.167	1.014	1.075
Education	Up to 15 years		Ref***	Ref***	Ref	Ref	Ref*	Ref***	Ref	Ref
	16-18 years		.671***	0.749***	0.893	0.966	0.803**	0.806***	0.964	0.897
	19 years		.266***	0.615*	0.83	0.792*	0.734	0.606***	0.769	0.812
	Still Studying		0.716	1.149	1.478	1.299	0.969	0.82	1.228	1.48
GDP				1.028	1.043**	1.009	1.042**	1.018	1.032**	1.054***
Unemployment				1.025*	1.028**	1.060***	1.042***	1.080***	1.066***	1.030**
Domestic Trust	Do Not Trust			7.050***	6.603***		5.907***			6.083***
Domestic Democracy Satisfaction	Very Satisfied			Ref***	Ref***		Ref***			Ref***
	Satisfied			0.523**	0.504**		0.401***			0.486**
	Not Very Satisfied			0.306***	0.288***		0.238***			0.272***
	Not At All Satisfied			0.411***	0.332***		0.303***			0.314***
European Democracy	Very Satisfied			Ref***	Ref***		Ref***			Ref***
	Satisfied			3.444***	3.515***		3.627***			3.547***
	Not Very Satisfied			21.225***	20.854***		19.477***			20.624***
	Not At All Satisfied			95.683***	84.130***		92.010***			83.384***
Nagelkerke R Square			0.033	0.423	0.447	0.185	0.437	0.157	0.22	0.453

Table 11:

Logisitic Regression - Domestic Trust, Crisis										
		Model 1	Model 2	Model 3	Model 4a	Model 4b	Model 5a	Model 5b	Model 6	Model 7
		Exp(B)								
Constant		6.692***	8.324***	0.230***	0.104*	0.387	1.20***	.176***	0.115**	0.43***
Individual-level variables										
Country Employment Expectation	Better						Ref***	Ref***	Ref**	Ref**
	Worse						2.152***	1.995***	1.853***	2.072***
	Same						1.747***	1.711***	1.657**	1.660**
Personal Job Expectation	Better						Ref	Ref***	Ref***	Ref
	Worse						0.828	1.022	1.048	0.974
	Same						0.738*	0.646***	0.665**	0.823
Economic Expectation	Better						Ref***	Ref***	Ref***	Ref***
	Worse						2.584***	3.3035***	2.729***	2.445***
	Same						1.575**	1.969***	1.778***	1.482*
Financial Expectation	Better						Ref	Ref***	Ref**	Ref
	Worse						1.199	1.669**	1.860**	1.253
	Same						0.965	1.711	1.436*	1.096
Life Expectation	Better						Ref	Ref*	Ref	Ref
	Worse						1.017	1.353*	0.892	0.828
	Same						1.047	1.067	0.937	0.957
Country Employment Situation	Very Satisfied				Ref	Ref			Ref	Ref
	Satisfied				0.875	0.44			0.568	1.376
	Not Very Satisfied				0.977	0.566			0.725	1.439
	Not At All Satisfied				0.804	0.587			0.753	1.223
Personal Job Situation	Very Satisfied				Ref	Ref			Ref	Ref
	Satisfied				0.754	0.897			0.849	0.767
	Not Very Satisfied				0.751	1.12			0.894	0.732
	Not At All Satisfied				0.693	1.116			0.846	0.647
Financial Situation	Very Satisfied				Ref*	Ref***			Ref	Ref
	Satisfied				1.334	1.446			1.299	1.31
	Not Very Satisfied				1.855	1.977*			1.52	1.583
	Not At All Satisfied				2.141	2.329***			1.612	1.595
Economic Situation	Very Satisfied				Ref***	Ref***			Ref***	Ref**
	Satisfied				0.977	0.937			1.271	1.048
	Not Very Satisfied				1.852	1.355			1.551	1.785
	Not At All Satisfied				2.569	2.687*			2.718*	2.219
Life Satisfaction	Very Satisfied				Ref	Ref***			Ref***	Ref
	Satisfied				0.963	1.165			1.034	0.942
	Not Very Satisfied				0.914	1.573**			1.27	0.857
	Not At All Satisfied				1.296	2.771***			2.042***	1.182
Control Variables										
Gender	Male		1.175*	1.152	1.126	1.131	1.127	1.205**	1.156*	1.15
Age	15-24		Ref***	Ref***	Ref***	Ref***	Ref***	Ref***	Ref***	Ref***
	25-39		1.093	0.828	0.791	0.91	0.764	0.965	0.861	0.726
	40-54		0.86	0.651*	0.599**	0.656**	0.556***	0.655***	0.594***	0.53***
	55+		0.564***	0.482***	0.458***	0.481***	0.410***	0.481***	0.427***	0.378***
Occupation	Self-Employed		Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref
	Managers		0.775	0.761	0.795	0.835	0.825	0.78	0.834	0.788
	Other White Collar		0.947	0.885	0.862	0.964	0.896	0.956	0.933	0.833
	Manual Labour		0.948	0.921	0.892	0.872	0.919	0.888	0.853	0.877
	Other		1.132	0.984	0.89	0.922	0.921	1.047	0.977	0.922
Education	Up to 15 years		Ref***	Ref	Ref	Ref	Ref	Ref	Ref	Ref
	16-18 years		0.793**	1.002	1.079	1.116*	0.993	1.031	1.15	1.053
	19 years		0.324***	0.82	0.945	1.034	0.797	0.836	0.93	0.829
	Still Studying		1.113	1.03	1.28	1.554	1.12	1.124	1.478	1.112
GDP				0.911***	0.917***	0.923***	0.940***	0.945***	0.953***	0.939***
Unemployment				1.043***	1.049***	1.071***	1.052***	1.097***	1.086***	1.060***
EU Trust	Do Not Trust			7.056***	6.532***		5.918			6.018***
Domestic Democracy Satisfaction	Very Satisfied			Ref***	Ref***		Ref			Ref***
	Satisfied			2.282***	2.311***		1.819**			1.919**
	Not Very Satisfied			7.607***	7.476***		5.425***			5.709***
	Not At All Satisfied			27.136***	24.551***		17.631***			18.050***
European Democracy	Very Satisfied			Ref***	Ref***		Ref***			Ref***
	Satisfied			0.748	0.741		0.763			0.745
	Not Very Satisfied			0.425***	0.395***		0.451***			0.374***
	Not At All Satisfied			0.304***	0.26***		0.290***			0.246***
Nagelkerke R Square			0.026	0.316	0.329	0.136	0.373	0.196	0.222	0.37

The tables above report the results of the logit-regression. The tables display odd ratios to facilitate the interpretation. Odds ratios are exponentiated coefficients that display the likelihood one will distrust the EU. Table 7 shows the results with European Trust as the dependent variable, regressed through a number of hierarchal models. The first level establishes individual-level controls, which excludes the independent variables that allows to assess the level of variation between the individual and contextual level. For instance, in Model 2, the data suggests that a person aged 25-39 is 1.373 times more likely to not trust the EU than a person aged 15-24, holding all other variables in the model constant.

The models proceed in a hierarchal fashion, adding variables in each step. The third model adds contextual-controls, accounting for national trust, democratic quality, and macroeconomic observations. Of the socio-demographic characteristics, age and education are the most significant indicators. The age range 25-39 and Other category (that includes unemployed) for occupation correlate the strongest against declining trust levels. These observations are consistent with the high unemployment and youth unemployment inflicting Greece. This is also supported by the fact that those still studying also are far more likely to not support the EU, particularly noticeable in Model 7. Controlling for democratic satisfaction and trust in institutions are highly significant, particularly that of European democratic satisfaction. However, it is interesting to note that a person who does not trust their national government is six times more likely to not trust the EU. One interpretation could be linked to the perception that the government did not sufficiently oppose or prevent austerity, which would be consistent with the lack of trust for both national and European institutions.

For analytical purposes, models 4b, 5b, and 6 remove the variables of domestic trust and domestic and European democracy. Given the overbearing significance of these variables, it is potential that they have a confounding effect, suppressing the values of other determining variables to a certain extent. At the same time, to decipher the relative impact of expectations and contextual perception the variables are separated in models 4 and 5, considering this work is interested in the relative influence of both individual-level expectations and perceptions, before combining in model 6 and 7.

Model 4a develops the next level, by applying individual current-level variables. This model reaffirms the perception of the labour market as an important predictor of EU trust levels. Model 4b removes the controls of domestic satisfaction and national trust, which displays all individual-indicators as significant. Model 5a removes current-level indicators in place of expectations, whereby personal job expectations are by far the most influential predictor, but also life satisfaction is a significant variable. This evidence is again confirmed upon removing the controls in 5b, whereby all expectations become significant. Model 6 combines both current-level and future expectations, for analytical purposes to display the relative significance of each level but without the controls of democracy and trust. The final stage combines the full model of predictors in Model 7, combining individual expectations and current-level variables. This model clearly reflects the profound nature of personal job expectations and situation as the most influential and significant predictor of trust on an individual-level, there are a number of similarly significant predictors but none that are as consistent across all levels. Socio-demographic considerations hold little consideration, while clearly satisfaction with EU democracy remains paramount.

The results reaffirm the inferences obtained through the descriptive analysis. Particularly noticeable is that employment variables remain significant variables across all levels, notably personal job variables that are both significant and strong predictors of trust. For instance, in Model 6, a person who is not satisfied at all with their personal employment situation is 2.37

times more likely to not support the EU than one who is very satisfied with their employment. This final model offers key inferences that reflect labour market changes as of paramount importance to trust levels. Across all individual-level conditions, expectations of perceptions of poor labour market conditions are the most significant predictors of trust, supporting H4.

Clearly the democratic quality of the EU plays the most influential role in determining trust levels. The log-odds for democratic satisfaction are consistently significant. However, since while under usual circumstances this may be logical, under crisis conditions it could be argued that this should not necessarily be the case. There is an economic justification for the lack of democratic capacity of the EU (e.g. Majone 1998), but this is dramatically enhanced during the crisis whereby there is a necessity for a democratic deficit. Thus, it could be plausible that people agree the EU is not democratic and still trust the EU, if crisis management is effective. Consequently, the clear correlation of limited democratic quality and trust levels infers that the public disagree with policy and perceive crisis management as a failure.

These findings become even clearer when compared to national trust. Labour market variables are far less significant and the log odds are equally much lower, with the exception of country employment expectations. Personal job perceptions and expectations, for instance, are continually below 1 log odds, while are only significant as expectations. Even further, the log odds for life satisfaction and expectations are slightly higher for declining EU trust than domestic – indicating a negative life quality satisfaction or expectancy correlates stronger to declining EU trust levels than with the national government.

The most consistent and significant correlation relates to economic conditions for national trust. This is supportive of the belief in Greece that the government contributed to the financial crisis, and potentially that willingly submitting to austerity is causing economic decline. For instance, an interview with Dr Christina Theochari, a representative of the trade union EKA, stated that: ND and PASOK were ‘the two main parties considered responsible for the crisis,’ highlighting that ‘the parties that ruled before were blamed for bringing the country to this situation.’ This has been confirmed by further research, that it has been empirically demonstrated the Greek public assigned far greater accountability and blame to governments following the bailout, essentially for allowing international intervention; while, specifically voters shifted their responsibility for economic policy outcomes from the EU to the national government (Kosimidis 2013).

Generally, expectations correlate stronger to domestic trust while current-level indicators are more influential on EU trust – evidenced in Model 7 for both the crisis and all years. This could be due to the limited transparency of the EU and the lack of information, whereby people base their trust and expectations off the national governments rhetoric, but attribute the current socio-economic conditions to European policy. Particularly indicative of this is that current perception of the country labour conditions do not evoke significant findings, while expectations of labour market decline correlate strongly to national distrust. This infers that they do not hold the government accountable for the labour market conditions but instead feel they are contributing in the future to its deterioration. This, therefore, could suggest that the people do not feel the government is responsible for failing policy, but distrusts the government for not opposing austerity and labour market reform while equally contributing to economic woes. This, again, presents consistency with the findings of Kosimidis (2013) in highlighting the shift in accountability.

This reflects the basic trend observed in the data, that current-level indicators are more significant at predicting EU trust levels, while future-level expectations correlate stronger to domestic trust. Personal job variables are highly significant in predicting EU trust, which is also supported by occupation often being significant as a predictor, as well as younger ages and unemployed – all of which revolve around labour market conditions. On the other hand, democratic satisfaction, while significant, is a far greater predictor of EU trust than national, which perhaps infers the recognition that the national government has little control over policy.

Furthermore, an intriguing finding in support of H2 is that the best predictive model was Model 5a across all years. This model displays a Nagelkerke R Square of 0.522 for EU trust, which approximates a 52% accuracy of prediction, demonstrating that this model was the best predictor. During the crisis years current-level perceptions hold slightly greater significance than expectations however. Whilst pseudo R square values do not hold as much significance as in linear regression, all models display a certain degree of accuracy. Similarly, Model 5a focusses largely upon expectations as the explanatory variables, supporting the hypothesis that expectations of future developments play a crucial role in public support for the EU. When consolidating to crisis years, however, current-level indicators hold greater significance, but expectations are still significant.

To summarize, the results reflect that overall individual current-level variables are more consistently related to European trust levels than domestic trust, which is consistent with the core hypothesis H1. In particular, labour market variables are strongly correlated to European trust, whilst notably the perception of current conditions are strongly linked to varying trust levels. National trust is better related to expectations, with economic conditions being the most significant predictor, but future country employment conditions also being a highly influential variable. In fact, reinforcing this is that economic satisfaction is a significant predictor of EU trust, highlighted by the reference category, inferring that those whom are satisfied by the economic situation are more likely to trust the EU. There is clear overlap across a number of variables in significance and log-odds between EU and national trust, which suggests the actions of the EU have eroded trust. Nonetheless, the clear differential of labour market significance between the EU and national institutions trust is highly noteworthy. Overall, the models demonstrate greater predictor power of EU trust than domestic trust, which in itself is a noteworthy occurrence.

Indeed, labour market reform has been arguably the central focus of Troika pressure since the beginning of the crisis. It is also the key area whereby there has been serious domestic conflict, with the perception of labour market reform has been imposed. Dr. Theochari of EKA similarly supported this perception stating: ‘I think the only reform that has been carried out is in the labour market, in fact they have destroyed every kind of protection.’ There are questions over the how compatible such measures are, the unions in particular have signalled serious concerns over the nature of reform, emphasised both through continual action as well as supported by elite interviewing conducted in this research. The perspective that the unions have been ‘part of the problem’ aided the process through the direct exclusion from concertation. Ultimately, the neoliberal ideals the Troika are promoting emphasize that labour market flexibly is crucial to restoring competiveness, and that traditional inherent rigidness of the Greek labour market is the paramount deficiency to overcome.

A more cynical reading of policy infers that the exclusion of the unions enabled the Troika to impose far-reaching measures and shift the burden of adjustment onto the labour market through quantitative measures. In fact, an interview with IME-GSEVEE supported this line of argument and also raised concerns over the scale of internal devaluation, suggesting that the deliberate dismantling of social dialogue did indeed provide the government with sufficient power to shift the burden to labour. While GSEE did not actively support this perception in the interviews, it was acknowledged that both a lack of consultation and Troika conditionality has enabled reform measures that would have been potentially restricted previously. In a similar vein, Schulten (2015) notes that the extensive decentralization of collective bargaining is perceived as “successful” from the Troika’s perspective given that it has enabled significant wage cuts, equating to more than 20 percent in real wages, far more than any other nation. Yet, while this may have been borne out of noble intentions, to boost export demand, there is a clear incompatibility given that the Greek economy lacks the structural prerequisites for success (Economakis et al. 2015; Schellinger 2015). At the same time, as Mr Massourakis stated in our interview: ‘It is very difficult to explain to the average person on the street what the hell Europe wants.’ All the people see is the tangible effects of policy and reform: lay-offs, wage cuts, pension cuts, and increases in taxation. This continual process of amounting austerity may be necessary, at least theoretically, but even if it may ensure future progress it is difficult to justify or even get people to understand. The regression analysis reinforces this perception and substantiates the hypothesis that the overwhelming pressure on labour market reform has defined domestic actors’ positions, whilst also recognizing the contributing effect of failed policies over time on public opinion.

An additional observation that shows support for the theory of postfunctionalism has been the increasing nationalism displayed throughout the financial crisis (Hooghe and Marks 2008). Polyakova and Fligstein (2013) undertake an empirical analysis of nationalism throughout the financial crisis and clearly demonstrate the emerging trend of declining European identity relative to nationalist associations. Perhaps interesting, Greece does not display as a significant result as other nations, however, there are number of inferences to explain this circumstance: firstly, Greek people never felt European initially – even at the peak European identity was roughly 50% (whereby citizens felt “European”), compared to the lowest point at

38% in 2013 (Eurobarometer 77-80). Secondly, Greek people do not trust the EU or domestic institutions. This lack of trust also relates to identity whereby Greek people are less readily willing to feel nationalistic whereby they have negative feelings towards domestic institutions. Nevertheless, there is a clear trend of declining “Europeanness” in Greece as consistent with the data by Polyakova and Fligstein (2013) as well as the theorization of postfunctionalism.

This extensive politicization observed draws into consideration the notion of *refraction* (Hooghe and Marks 2008). This concept refers to the distorted policy process whereby the politics of the EU must be processed by national politicians whom are subject significant societal conflicts and priorities that distort such initiatives. This suggestion promotes the societal approach as applied in this paper as an invaluable tool of explaining policy divergence between nations and against European expectations.

The neofunctionalist rebuttal to this logic, is that European politics should *transcend* the national level, superseding domestic cleavages. Indeed, this is the reasoning applied by Schimmelfennig (2014) in highlighting the manner by which technocratic interventions have prevented domestic politics from undermining the integrative process. Schimmelfennig illustrates three distinctive features of crisis management that support this premise: the exclusion of Euro-sceptic parties from power; the avoidance of referendums; and the empowering of the supranational.

Ultimately, the core finding is that politicization has occurred. Particularly, the findings support the premise that there is a severe legitimacy problem in Eurozone crisis management, both given the mode of governance and type of policies adopted (Tsoukala 2013). The following sections shall consider the role of domestic interests and subsequently evaluate policy developments in Greece to assess their consistency against societal considerations.

Domestic Interests

3.6 Methodology

The methodology for the identification of domestic interests considers the positions taken by core domestic groups through a recognition of their public statements and opinions, supported by an analysis of direct action. It is assumed in this work that the public statements of such organizations are reflective of their positions taken on policy. Equally, the importance of certain issues can be further analysed by the extent of action undertaken that symbolizes the significance of that certain interest. Thus, the work utilizes documents and public statements to derive this understanding and contributes an analysis of public action through labour databases, such as the ILO or GSEE-INE, as well as relevant studies of social action (e.g. Hamann et al. 2013).

In addition, the work conducted semi-structured interviews undertaken in an ethnographic perspective. This resource has been highly insightful in interpreting the positions and influence of key domestic actors. Relevant stakeholders within the decision-making process and domestic arena were identified, such as trade union leaders, employers' associations, politicians, economists, and research institutes. The purpose of the data is to present an in-depth understanding of the varying positions and actions occurring within the policy-making process, which serves to support these earlier observations.

While an analysis of domestic interests is a fairly simple exercise, a true understanding of their influence is rather complex. The first key feature altering the situation is the prevalence of clientelist linkages and rent-seeking activities of the government. Clientelism has the potential to radically alter the relationship between key domestic actors and the government, whilst being ubiquitous in Greece (Featherstone and Papadimitriou 2008). Indeed, an extensive study by Afonso et al. (2015) confirms the prevalence of clientelism in shaping austerity policy in Greece during the crisis. This is supported by interview data obtained by Dedoussopoulos et al. (2013) whom noted that there were various unofficial meetings between Ministers and the social partners, confirmed by Ms Anna Stratinaki, General Secretary in the Ministry of Labour. It has also been supported by interview data obtained by this research, with all participants recognizing the prominence of clientelist links, but differing on their ultimate impact as shall be discussed.

Secondly, it is recognized that the social partners have been actively ignored since it was assumed they were "part of the problem" (Dedoussopoulos et al. 2013: 39), which lead to lack of social concertation and decentralization of the collective bargaining process. Indeed, the European Parliament (2014) has recognized the predicament of societal interests throughout the crisis:

'Social dialogue has perhaps been the principal victim of the programmes. […] social agents at national level have been neither consulted nor included in the process of designing the programmes and, furthermore, […] their autonomy has been undermined through the automatic renewal of collective agreements, revision of sectoral agreements and the introduction of laws freezing or reducing minimum wages established in collective bargaining agreements'

Thus, a combination of explicit statements and actions shall be coupled with data from elite interviewing. The above methodology hopes to account for the key limitation in assessing the relative influence of societal interests.

3.61 Domestic Interests

Trade Union Positions

This section shall present an evaluation of Greek domestic interests. The section provides a thorough overview of trade union and employers' associations positions, observed in public statements, policy agendas, and actions.

Throughout the crisis generally the position of the unions were unified, presenting a solid anti-austerity front. GSEE have noted that successive programmes have severely harmed the labour market and exacerbated recession, particularly emphasising unemployment and argue that any further salary, pension and social benefit cuts will only intensify the problems. ESEE feel rudimentary business activity is almost impossible, since there are no liquidity reserves. GSEVEE focus on the demise of businesses and the accompanying jobs, while also noting the lack of social protection. ADEDY equally support much of the action of GSEE, arguing that austerity is devastating Greece. This is perhaps best summarized by Mr. Argedis of GSEE in the interview, he argued: the result of austerity was 'economic catastrophe, the economic catastrophe immediately caused a social catastrophe' and that 'all the changes in the labour market caused the detrimental effects to the workers, to the labour market but also the workers, but behind the workers: their families, they are people, their children.' The employers' associations followed a similar line, in 2013 the chairman of SEV Dimitris Daskalopoulos, stressed in his speech to the SEV assembly that Greece had 'two millstones round its neck: the anti-growth memorandums and the anachronistic state.' SEV urged for a relaxation of the fiscal stance, lowering taxes and budgetary restraint, which in turn would enable a 'National Development Program' and allow for state-led growth strategy. GSEE in the same year argued 'modern program of economic and social reconstruction of Greek economy has come to a dead end.' (GSEE 2013). Ultimately, the social partners urged the government to push for more relaxed conditions and to encourage state-led growth.

Yet, it was not necessarily just merely anti-austerity – but questioning the actual feasibility of reforms imposed. Both, for instance, Dmitris Bipas of IME GSVEE and Dr Theochari of EKA, posed the question of whether not only the policy could ever work, but more so if it could work for any nation. Mr Bipas argued that 'labour market reform was not fitted to the Greek economy,' even questioning the necessity of such as a 'fallacy,' a point strongly supported by Mr Aregdis of GSEE; while Dr Theochari took the line of argument a step further and argued it was no coincidence that two ideologically opposite governments similarly opposed a number of measures – it is clear that the MoU 'proposed reforms that could be beneficial for their interests, not their personal interests but lobbies' but also that such measures were counterintuitive in that they would 'destroy people' diminishing the capacity to fulfil the necessary reforms. It is as much the logic and intentions behind austerity that angers the unions as much as the burden placed upon the workers.

3.62 Employers Associations' Positions

The employers' position has changed over time. The initial stance demonstrated a clear support for the Memoranda. Indeed, interview data with SEV economist Mr. Massourakis illustrates that SEV agree with the direction of reform, to make Greece a more competitive nation. In fact, there is a distinct correlation between the employers' preferences and the policy outcomes in Greece, with SEV arguing that strict adherence would propel economic activity in Greece (SEV 2013). This is a point particularly stressed by Markantonatou (2013a: 9) whom notes that this point is best reflected both in the fact the SEV promoted the Memoranda as a there is a notable implementation of special Memoranda regulations that coincided with reforms proposed by SEV, such as reduced minimum wage and lower employer social security contributions, less accountability to the Competition Commission, further reduction of taxes for export orientated firms and other special tax costs, looser environment protection restrictions, outsourcing of business licensing (SEV 2010). While, explicitly SEV supported the Memorandum:

'The real essence of the Memorandum of Understanding is in the structural reforms, those reforms that we ought to have implemented for years and which our political system did not dare to. If we had made these necessary changes before 15 or even 5 years ago, we would not today be facing bankruptcy' (SEV 2010).

However, at the same time, internal devaluation is counteracting any positive economic movements within the economy and that hurts businesses. Therefore, there is a willingness to make concessions. Interviews with SEV highlight the belief that the level of labour costs was in fact a symptom of the availability of income in the economy in general, as opposed to a leading cause of the crisis; as such, wage reductions would only have short-term effects (Koukiadaki and Grimshaw 2016: 10). Epitomising this is in our interview Mr. Massourakis stated in a recent meeting with the Troika the employers' offered to raise contributions to ease the burden on workers, but the notion was rejected. Thus, in spite of supporting reforms that have the aim of promoting competitiveness, there remains a pessimism given the disproportionate retrenchment that continues to be the focus of measures (Matsaganis 2013: 25). They are in a 'lose-lose' situation (Dedoussopoulos et al. 2013: 60), while they want to ease the burden of internal adjustment, they fear losing members whom have an opt-out of collective agreements capability. Thus, if they continue to support the demands of the Troika, it is inevitable they contribute to a deeper recession, but will ultimately lose members anyway – due to bankruptcies.

3.63 Policy analysis

This section intends to present a policy analysis of the measures adopted in Greece through the financial crisis. The ultimate purpose is to illustrate the lack of policy implementation and frustration with the Greek adjustment programme. Considering that Greece operates under conditionality and has to a certain extent forfeited national political sovereignty to a supranational level, thus being subjugated to a technocratic process, implantation of adjustment programmes should be relatively seamless. However, there has been serious questions asked from the state in terms of reform and a recognized societal opposition to many of the suggested measures. This work will utilize the extensive literature on conditionality programmes, such as Wolff and Terzi (2013), Sapir et al. (2014), Terzi (2015) and Featherstone (2015), coupled with policy analysis from various databases, such as IMF-MONA.

For the first stage of conditionality, particular focus was made on fiscal issues, dominating the agenda. This is consistent with both the perception of the crisis and with other peripheral nations, all roughly equal in terms of focus on fiscal consolidation. A common rhetoric for Greece in particular were ‘reforms,’ with this terminology occurring almost twice as often in Greece’s programme than the other nations – specifically, Cyprus, Ireland and Portugal. Equally, emphasis on improving the business environment was particularly important, while privatization received significant attention, as opposed to Ireland where it was barely mentioned. Ironically, of all nations unemployment in Greece received the smallest attention – despite Greece possessing the highest unemployment rate and it being a major concern of the Greece public. Finally, poverty was almost ignored for all countries except Greece, where it was only mentioned due to the acute development over the crisis yet even still it received virtually no attention (Pisani-Ferry et al 2013).

Data from Pisani-Ferry, Sapir and Wolff (2013) indicates that the Greek situation was particularly unique for the Troika. Interviews with stakeholders in the Troika indicates there was increasing frustration with the implementation of conditionality in Greece. Realising their approach was not effective, due to a lack of guidance for a weak public administration, they provided far greater detailed programmes for the government to follow. This is reflected in the substantial page count of Greek documents relative to the other crisis countries: the page count for Greece was 1806, compared to 1081 for Portugal or 920 for Ireland. Over the period of reviews, the average number of pages tripled. (Wolff and Terzi 2013; Sapir et al 2014).

The other point of note is the distinctive shift in focus of reform by the Troika. Given the dramatic unexpected continued decline of the Greek economy, there was a noticeable shift from “austerity” to “growth,” with greater emphasis placed upon privatizations. There was a significant decline in fiscal terminology, with less emphasis on consolidation. However, given the significant importance placed upon this in the first programme, the decline does indeed indicate a shift yet consolidation was still a key characteristic.

This trend can be confirmed when analysing data from all official programme documents. Over time, consolidation increasingly was placed aside while privatization remained of central importance. Equally, given the declining economic situation, unemployment became of greater concern. Finally, there is no direct reference to equality or equity within these documents. There was no recognition that reforms should be fair, the overriding emphasis was consolidation regardless of impact.

3.64 Structural Reform Overview

Quantifying structural reform efforts and assessing the degree of implementation is particularly problematic (Dreher 2009). Following Ivanova et al (2003), Terzi (2015) and with data from IMF’s Monitoring of Fund Arrangements (MONA) database, it is possible to provide an overview of structural reforms undertaken and whether they were met with delay, in part, waived, or not met at all with respective to programme conditionality specifications.

It is observed that between reform efforts there was greater emphasis on the financial sector but less so on pensions, civil service, and public enterprises. Note, there is no specific conditionality focus on poverty reduction.

It is interesting to note that the first reform package was entirely implemented, albeit with a number of delays (Pisani-Ferry 2012). In line with literature from the political economy of forced reform, it can be inferred that this is due to the fact that this is the period whereby the greatest national sovereignty had been forfeit. Furthermore, consistent with domestic politics approach, it is also the period whereby domestic considerations were amenable to reform: interests were almost entirely removed from the policy process by the Troika; while, domestic ideas were at this time supportive of the EU, at least relative to national institutions, and open to “hope” in the success of consolidation, while accepting the discourse of necessity.

In fact, Featherstone (2015) argues that the paradigmatic difference in understanding between the Greek state and the Troika became a prominent hindrance. Perhaps this is best reflected by the fact the overriding focus of the proposals was significantly different to that existed prior to the crisis, with consolidation and financial review being the dominant theme. These differences represent contrasting agendas and norms, which also could explain the poor implemental record of the Greek state, with the Troika criticizing Greece for being ‘reluctant to engage in self-reflection or wider evaluation’ (Featherstone 2015: 303).

This trend, however, continued – with it being recognized that reforms effectively stalled by June 2014. In fact, ‘reforms were often pursued in a half-hearted or piecemeal manner, lacking an overall vision of what the country should look like after they were completed’ (European Parliament 2015). Yet, one of the major problems for the Greek state is that no alternative was ever presented, thus without any viable alternatives there was no option but to continue on the same path initiated with the first Memorandum.

Consequently, it is recognized that Greece has undertaken significant reforms, however, there have been serious issues of implementation, compliance, and an active attempt to undermine measures that affect clientelist groups. Indeed, 'the financing structure of the trade unions, and basic labour laws, islands of privilege within the labour market and those involved in the bargaining system were still secured' that ultimately meant 'implementation of labour market reforms… fell short of the needed critical mass.' (Pelagidis and Mitsopoulos 2016: 2028).

3.65 Greek reforms? An Empirical Analysis

This section shall present a correlation societal considerations against policy developments. The section will first present an analysis of the reforms undertaken in Greece, outlining the path of reforms implemented as part of the Memoranda. It shall consider the positions of specific interests and demonstrate consistencies of measures or limited implementation, whilst also utilizing anecdotal evidence of the most powerful sectors to highlight potential continuation of clientelist tendencies. It shall conclude by evaluating the broader theoretical implications of labour market reform through applying the core perspectives of reform paths from the literature.

Table 12: List of Greek Reforms

Date	Law	Overview
2010	*Law 3845*	Emergency adjustments concerning the implementation of the medium-term fiscal strategy 2012-2015
	Law 3871	Deregulation dismissal protection
	Law 3899	Deregulation dismissal protection
2011	*Law 4024*	Decentralization collective bargaining - collective agreements at a sectoral level take precedent over collective agreements at a professional level
-		
2012	*Law 4046*	Urgent measures to reduce the public debt and rescue the national economy
-	*Ministerial Council Act 6/28-2-2012*	Adjustment of minimum wage
-	*Law 4093*	Increasing labour market flexibility, supply-side measures, deregulation of dismissal protection
-		
2013	*Law 4172*	Adjusts the income taxation and introduces emergency measures for the purposes of implementing Laws N° 4046/2012, 4093/2012 and 4127/2013.
-		
2014	*Law 4254*	Measures for the support and development of the Greek Economy and other provisions.
-	*Law 4303*	Tax reform
-		
2015	*Law 4336*	Tax reform

Greece has undertaken a series of drastic measures throughout the course of the crisis that has rapidly transformed the labour market system (Law 3845, Law 3871, Law 3899), in 2011 (Law 4024), in 2012 (Law 4046, Ministerial Council Act 6/28-2-2012, Law 4093), in 2013 (Law 4172), in 2014 (Law 4254, Law 4303) and in 2015 (Law 4336). This period transformed Greece: previously, it was a state that possessed high bargaining coverage, average coordination levels, and a prevalence of multi-employer bargaining, in a system that had sufficient incentives to negotiate collectively and regulate jointly wages and working conditions. Under this system, collective bargaining was appreciated as a crucial characteristic of economic and political development, whereby society respected the institution as a democratic component. The crisis revolutionized this system, empirically shown by a reduction in bargaining and decentralization of collective bargaining. A process of ‘disorganized decentralization’ favoured employers as they were able to establish single employer bargaining, or even unilateral employer action, as the dominant mode of regulation (Traxler 1995).

Aforementioned, the logic of the crisis presented the idea that a process of fiscal austerity accompanied by structural reforms to the rigid Greek labour market should improve investment, competitiveness, and exports. The premise was that Greece was failing due to issues of cost competitiveness, thus targeting this will increase the level of competitiveness and exports, while offsetting the shock to domestic demand (Blanchard et al. 2014). The EU, therefore, pushed its neoliberal position and promoted labour market flexibility as the preferred remedy, that prioritized a downward squeeze on the minimum wage, that should reset the base for wage determination, while improving fiscal conditions by reducing the public-sector wage bill (Bozani and Drydakis 2015). Given this, the neoliberal underpinning sought to emphasize decentralization of collective bargaining, reducing EPL, reducing wages, reforming arbitration and mediation processes to favour the employers, increasing work time flexibility, and a host of other measures.

This rationale raises a theoretical and political debate, since the approach is essentially founded on the logic that labour cost flexibility is key, given that all other costs are inflexible. The position therefore assumes that the labour market must play a critical role as a “shock-absorber,” a premise that reverses the neoclassical causality that the labour market is always at equilibrium, and goods and money should react. The reforms will transform the labour market away from being a social institution, a role which was certainly critical to the efficient functioning of Greece's political economy. The approach also ignores the reality of wage cost as more than just the cost to an individual firm, instead it is a crucial component of domestic demand. Thus, the approach certainly raises questions over the logic of austerity and labour market flexibility, particularly given the institutional intricacies of the Greek political economic system, as well as questioning the social construction of the EU, both of which raises issues of policy legitimation as well as issues of social justice.

The Greek state was forced to adopt a strict supranational-imposed conditionality programme, somewhat easing the process of implementation. Particularly in the early years, the crisis induced reform as by means of an emergency situation, necessity, and external pressure. There was a realization that hardship may be necessary to overcome the crisis, as outlined in the interviews and through psychology, people cling to hope and believe what politicians tell them, thus accepted that austerity and tough reforms should lead Greece out of the crisis. In addition, the oversight of the Troika enabled and prescribed the above developments in dismantling collective bargaining as a direct means of addressing inherent domestic veto-blocks: it was seen that the crisis presented the opportunity to get rid of pre-crisis economic and social structures that had plagued the Greek political-economic system (Barkbu et al. 2012). There was no consultation with the social partners over the measures associated with the first loan agreement (Ghellab and Papadakis 2011). Indeed, the government utilized the emergency situation as a justification for their exclusion: 'it was not possible to accommodate participatory methods when Greece was about to default on its loans' (ILO 2011). While, the former Minister of Labour explicitly cites pressure from IMF and the Troika as a defining reason to exclude consultation; partly founded on the fact that the Troika perceived the unions to be part of the problem, but also partly a representation of the lacklustre structures for tripartite social dialogue, limiting the sharing of responsibility between actors (Koukiadaki and Kokkinou 2014: 142). Even when the government made attempts to improve social dialogue, they perceived the social partners as unprepared to face the challenges of the crisis (Ibid). Nevertheless, the existence of the crisis and international intervention provided the government the necessary "excuse" and foundation to implement reform.

In 2010, Phase A of the program began and numerous laws to target specifically the bloated public sector: Law 3833/2010 prohibited wage increases in the public sector, sought to impose wage and allowance cuts, reduce overtime hours and reduced public sector hiring. Phase B followed that followed with measures to improve flexibility of the labour market: Law 3846/2010 legalized flexible labour and fell outside the remit of collective bargaining, but resulted in a major increase in precariousness; Law 3899/2010 significantly increase the power of employers over workers, by increasing the probation period, extending the maximum duration of temporary contracts, and lengthening the period whereby employers possess unilateral power over labour time flexibility; Law 3863/2010 weakened collective dismissals dramatically; while finally, Law 3899/2010 increased the power of employers over workers in terms of control of overtime, an issue that was highly contentious in the 2000s.

Following lacklustre implementation and a continuation of declining socio-economic fundamentals, the pressure on Greece mounted as a second adjustment package became necessary. The second Memorandum took even greater strides to implement labour market flexibility and lower labour costs, given the limited improvement in competitiveness (Commission of European Communities 2012). Noted as Phase C of the process, it was the first openly acknowledged time of the failure to meet macroeconomic and fiscal targets as specified in Memorandum I. Consequently, Law 3896/2011 was ratified by parliament that initiated the next stage, the law increased taxation on income, goods and housing as well as introducing further flexibility to hiring and fixed-term jobs. Following this, however, was the major changes undertaken by the Troika in Phase D: whereby Law 4046/2012 abolished the General Collective Agreement that the social partners agreed to in 2010; imposed a 22% reduction in the minimum wage; cut wages for young persons aged 25 or under by a minimum of 32%; promoted bargaining by an individual basis for wages, working hours or conditions, whilst also stating that sectoral or occupational agreements not agreed on time will cease in effect; and reduced social contributions of employers. It has been argued, by a professor of labour law, that this removed 'any traces of labour law in Greece' (Dedoussopoulos et al. 2013: 43).

Phase E builds on this same rationale, whereby Law 4093/2012 activates the agreed Medium-term Fiscal Framework 2013-2016. This legislation targets: the salaries of university professors and research personnel, members of the judicial system and public servants excluded from the unique public sector remuneration codes; abolishes the 13th and 14th salary for all public servants; reforms pensions and both reduces them as well as increasing the qualifying age; introduces a suspension for unqualified public sector personnel; abolishes the five-day week, without reducing the 40-hour a week; facilitates shift work, by providing an 11-hour shift period between two shifts; and incudes an optional notification in advance of overtime work. Building on this, further measures were introduced to reduce cost in redundancies. Equally important, however, was that the Law provided power to the government for decisions on minimum wage, that while it should be conducted in consultation with the social partners, there is no prescription that the Minister of Labour is obliged to decide in accordance with them, nor are the social partners allowed to decide remuneration via collective agreements. Allowances were also reduced, which traditionally had been utilized as a substitute for direct wage increases. Overall, the measures were a direct attack not only on the labour market and rights, but also on clientelist and rent-seeking activities that had plagued the Greek system.

In turn, a deliberate process of dismantling collective bargaining in Greece severely weakened the institutional framework and undermined the power of the unions. This latter point is reflected by the dramatic decline in collective agreements, which signifies the disempowerment of the unions as representatives of workers – with only 11 such agreements in place in 2014 (Kennedy 2014). This has been founded on a process of 'derogation:' whereby firm level agreements diverge from sectoral standards; the transferable of the ability to determine the minimum wage away from the social partners; existing collective agreements have been subject to arbitrary legislative annulment – primarily to enforce public sector wage freezes; the extent of collective bargaining coverage has declined and the length of time that collective agreements remain has been reduced; finally, the rights of unions to bargain at a firm level has been weakened.

Overall, the relative position of different actors vis-à-vis the reform packages is not surprising. Firstly, the clear opponents of the measures were the unions, in particular GSEE and ADEDY, that utilized national strikes and protests given the lack of concertation On the other hand, there was a split between the employers: Aforementioned, SEV, which is considered the most influential organization and the peak representative association of large export-led enterprises, was predominantly supportive of the measures, as it was in line with their preference of increasing labour market flexibility. However, as demonstrated in the interviews conducted in this paper, ESEE and GSVEE, representing SME's and inward-looking commercial firms, were highly cynical of austerity and the measures, since SME's are most likely to suffer from direct and indirect tax increases, because that will lower consumption levels and reduce the inflow of hot money (Ghellab and Papadakis 2011)

Perhaps the most striking characteristic of the period has been the extent to which the employers have benefitted from the episode. Empirically it can be illustrated the extent that the employers benefited from this period, given the manner by which the Greek state adjusted through labour market flexibility. The measures introduced ensured that firms were more effectively able to adjust both wages and labour input. Between 2010 and 2013, it was reported that 60% of firms found their costs decreased, either moderately or strongly. Of this proportion, 68% stated this decrease was derived from lower labour cost, while the remainder reported the decrease being derived from other cost components. This is reinforced by responses regarding collective bargaining, as 63% felt it was much easier to offer lower wages to incumbents, while 80% argued it was easier to offer lower wages to new employees. It was also easier to lay-off workers and modify working hours, as half of firms confirmed (Kosma et al. 2017). Most interesting, is the fact that it was the Greek employers' that enjoyed by far the most benefit in relation to countries in similar situations, for instance, over the same period the share of Italian firms that saw a comparative decrease in labour costs was 23%. Instead of moderating labour costs, Italian firms concentrated on labour input (D'Amuri et al. 2015; Izquierdo and Jimeno 2015). Given this situation in Greece, the success of the employers' is demonstrated by the fact that there were no observed rigidities regarding wage and labour input adjustment over the period, the culmination of their strategy over the previous decades (Kosma et al. 2017: 13).

It has been argued that there are clear consistencies with the agenda of SEV and the subsequent policies adopted, particularly in the early years. The development of policy highlights how there was an active dissolution of collective bargaining that strengthened the power of the employers vis-à-vis the unions. In 2010 numerous laws were passed to improve flexibility: Law 3846/2010 legalized flexible labour and fell outside the remit of collective bargaining, but resulted in a major increase in precariousness; Law 3899/2010 significantly increase the power of employers over workers, by increasing the probation period, extending the maximum duration of temporary contracts, and lengthening the period whereby employers possess unilateral power over labour time flexibility; Law 3863/2010 weakened collective dismissals dramatically; while finally, Law 3899/2010 increased the power of employers over workers in terms.

This is a point recognized directly through interviewing. For instance, Dr Theochari of EKA argued that in response to whether the employers' may have had too much influence, 'Of course, some of the measures were dictated by them. Unfortunately, this was the truth, you can see things that the employers wanted to be done before and they were fulfilled through the memorandum. For example, the abolition of arbitration. I don't remember how many years the employers' organization asked to eliminate arbitration and only mediation. Through the memorandum, they achieved this.' Equally, Mr. Argedis stated that there is evidence of the employers' approaching the Troika, yet it is impossible to say what goes on behind closed doors. SEV denied this aspect, recognizing they are consulted but argue this is a formal process.

More explicitly, there is evidence that some of the larger employers did have access to the government and Troika, even outside official institutional channels, and were able to lobby for specific reforms, 'as they saw the crisis as an opportunity to demolish every rule in the market' (Koukiadaki and Kokkinou 2014: 9). A particular example taken from an interview with a member of GSEVEE highlighted that groups of companies were highly influential in the issues concerning Sunday opening for shops. GSEVEE argued that between 75-95% of the market was controlled by either Greek or foreign companies, 85% of employees are employed by SMEs and 75% of the value-added is produced again by SMEs. Given this context, they argued, it was illogical that federations of SMEs were not provided the opportunity to input to discussions.

Nevertheless, the reduction of the minimum wage as part of the 2012 reform package presents an ideal case-study of the policy-making process at the time. It is crucial to remember that implementation of measures was a pre-requisite for the state to continue to secure funding, and thus takes ultimate priority. As argued portrayed by the Troika, a reduction of the minimum wage was a prerequisite in order to aid the recovery of competitiveness. Based on this, the employers were against any cuts in the minimum wage, but supported a three-year freeze in wage and maturity increases as well as a reduction of social insurance costs. GSEE, on the other hand, were against any impact to wage costs and stated the emphasis should be on non-wage costs, arguing that fiscal equivalents should be found to offset financial loses of the funds. In February 2012, an agreement was reached that outlined the social partners' consensus to preserve the thirteenth and fourteenth salary and minimum wage levels, as prescribed by the national collective agreement, and the maintenance of after-effect of collective agreements. However, the government considered this only a superficial agreement as there was a failure to agree on any of the specifics of reform, including a wage reduction, and subsequently decided to proceed unilaterally with the second Memorandum. Thus, there was an abandonment of an attempt to proceed with domestic agreement on terms, instead a National Committee for Social Dialogue was set up as a tripartite institution to a provide a discussion forum for measures on unemployment, national minimum wage, and undeclared labour.

The above outlines the importance of adhering to the agenda of the Troika. Above all else, staying in the EU was vital. The public, in spite of the developments, realized the significance of membership, both for the prospects of economic growth – in being directly supported financially, but also with longevity – as much as how the EU provided a sound security framework, particularly when addressing the rising migration issues. The other point of note, is that even still the employers benefited from this outcome, given that there was a lowering of wage levels below the national general collective agreement. The neoliberal agenda being imposed on Greece was firmly in line with the wishes of the employers, and thus these discussions present essentially a win-win situation for them.

The employers' influence, therefore, can be founded on a number of crucial factors. Firstly, and perhaps most importantly, is the aligned vision for reform that they shared with the Troika. In promoting neoliberal measures and favouring labour market flexibility, it increased both their credibility in the eyes of the Troika and the State, as well as ensuring that they were always likely to have preferable outcomes whether agreements are reached or not – which was crucial since Greece had to implement reform. Secondly, they were well adapted to the pressures of transnatinalizaton that provided leverage in policy-discussions, as well as greater access to decision-making structures. Thirdly, given the aligned vision and access, the input of the employers granted input-legitimacy to the government, making them an amenable and preferable partner to consult (Heritier 1999).

On the other hand, as documented, the unions lacked any social concertation during this period; while they were also hampered by wide distrust in the public and rising forms of precarious and atypical work. Over time, however, given that the unions had little impact nationally, they have adopted a legal approach at both a national and supranational level. Locally, the unions have opted to push for judicial review in front of the Council of State, although this has had mixed results at best. On a supranational level, the unions have approached transnational organizations such as the ILO and International Trade Union Confederation for support. This most striking result has been the successful inclusion of the

ILO as an independent organization to review measures relating to collective bargaining for the third Memorandum, particularly as the ILO favours a strong collective bargaining framework and high levels of coverage. Finally, the unions have sought legal action on a supranational level by approaching the European Court of Human Rights, the General Court of the European Union, and the European Committee of Social Rights. While the courts have not been particularly successful, the ECSR has found violations of the Social Charter from applications, for instance in cases relating to the restrictions of benefits, or concerning labour and social protection between older and younger workers. This route has yielded results thus far, but has significant potential given the continued lacklustre promise shown by Greece in conjunction with further austerity and pressures for flexibility.

This is not to say that the unions have not had any impact in spite of not possessing the same insider relevance. There is anecdotal evidence that suggests the potential continuation of their role in the political system, particularly that in the clientelist system the unions are formalized as essential political entities. Indicative of this were changes in wages, whereby the public-sector wage premium actually increased over the course of austerity: ‘Wage adjustment in the private sector has been stronger, more prolonged, and was accompanied by a substantial change in the structure of returns both for individual characteristics (e.g., education) and on the aggregate (for worker and job characteristics at large)’ (Christopoulou and Monastiriotis 2015: 7). Indeed, public utilities were the only sector whereby wages remained above their 2000 levels, which correlates to a sector protected by one of the most powerful unions in Greece. Indeed, the product market is well-recognized has being the most difficult to reform and corresponds to a lack of reform throughout he crisis (Ioannides 2015).

The same can be seen in public sector employment, while widespread job losses have been prevalent, as a percentage of total employment public sector employment has grown 2009-

2013 (ILOSTAT). Daouli et al. (2014) demonstrate how the greatest proportion of job losses came in the private sector or due to a collapse of new hires. The government continually attempted to channel reform, redirecting measures towards private sector employees, preserving and salvaging legislation that affectted favoured groups, trade unions, and predominantly public sector employees (Pelagidis and Mitsopoulos 2016: 2028). Zahariadis (2014) notes that job losses in the public sector came mainly from the non-renewal of temporary contracts and early retirement; while on the demand side, there were legal constraints coupled with a lack of political will of a government ‘gridlocked’ by domestic interests (Christopoulou and Monastiriotis 2015). The 2012 commitments pertained that the Greek government should undertake a cutback of 150,000 employees, however actual dismissals merely measured in the low thousands (Ibid).

This reflects the strategic choice of government to ‘preserve and protect an oversized public sector at any cost’ (Giannitis and Zografakis 2015: 17). The consequence of this policy route was vastly increasing the tax burden on society and widespread unemployment in the private sector, demonstrating a close interconnection of the political system and public administration at the expense of significant collective interests, with the purpose of maintaining the current system and thus left intact an ‘inefficient, corrupt and backward public administration’ (Ibid.) This also contrasts with the specification of the IMF for how a successful and sustainable adjustment programme should be, stressing that measures necessary for institutional reform should entail tax rate reductions (IMF 2013).

Emphasizing these legal obligations is Article 103 of the constitution, which states public sector employees cannot be dismissed from a position established by law, unless the position is abolished. However, while 2012 saw job abolitions legislated, many of these were protracted and later overturned by the Constitutional Court (Zahariadis 2014). This was planned to be tackled in 2016, but under the new SYRIZA government has been removed from the agenda. Equally, in May 2015 SYRIZA announced it was repealing previous legislation and rehiring public sector employees. The movement saw the rehiring of around 13,000 employees while also removing the policy of annual evaluation for civil servants and promotions based on merit.

At the same time, with regards to taxation, both GSEE and SEV criticized the Troika's policy extensively arguing that it represented a 'tax tsunami' that 'suffocate low wage earners, pensioners and other struggling Greeks' (GSEE 2011). Even as early as 2013 the Greek government undermined Troika policy by reducing VAT on restaurants to 13%. Yet, even in spite of this Mr. Theodore Fessas (SEV) at Eurobank Investor Forum argued Greece still suffers from heavy taxation. The social partners have strongly argued in favour of eliminating tax evasion and undertaking system reform to promote revenue as opposed to raising taxes.

The final key area whereby societal considerations may have played a defining role is the traditional societal conflict point of pension reform, which suffered from poor design in attempting to balance domestic considerations (Carrera et al. 2009; Featherstone and Tinios 2006; Featherstone 2005; Tinios 2005). The government presented a "new architecture" aimed at separating the social insurance function from the social assistance function. Despite the intention, the actual configuration was left open to interpretation as it was regarded a political issue (Stergiou and Sakellaropoulos 2010 87; Angelaki and Carrera 2015: 389). External constraints urged cuts and a shift of the model in a liberal direction, but it is clearly apparent that the measures have been constrained by both prior institutional arrangements and the concerns of political parties in power, resulting in a gradual transition appeasing the powerful social groups that had most to lose (Zambarloukou 2015). Early attempts at reform did result in important consolidation, but at the same time reflected either a reluctance or inability of government to realize necessary adjustment and structural reform (Angelaki and Carerra: 385). Pension consolidation was utilized as a key tool in appeasing creditors and displaying readiness to return to the international financial markets (Ibid: 393), but it is clear that pension reform strategy has been short-sighted and that when ‘pensions become levers for state financing under duress not only are careful calculations about the long-term sustainability of the pension system neglected’ (Datz and Danscis 2013: 92).

Anecdotal evidence can support these rent-seeking activities. For instance, there has been clear “favourable” treatment with respect to Greece’s Public Power Company (DEH). One of the most powerful unions in Greece, GENOP-DEH signed a collective bargaining agreement with four unions, which coincidently was the first agreement under the new government, which entitled them to additional allowances estimated up to EUR1800 per year – an event heavily criticised in the media and public. At the same time, the government has explicitly stated that the Greek government rejects any notion of cuts on wages, pensions, or a VAT rise on electricity (Reuters June 14, 2015).

Even during the early stages there was significant internal conflict against austerity. Finance Minister Papaconstantinou was dismissed due to his falling popularity given his intention to apply Troika suggestions by the book. Continual PASOK resignations occurred with each austerity package. Blame-shifting became prevalent as ND continually criticized PASOK, which reflected favourably in polls (Vasilopoulou et al. 2013: 395– 6). Following the election of a coalition government, given the crumbling support for PASOK, there are two notable episodes: firstly, Samaras won a majority on the basis of anti-austerity rhetoric and only retreated his position when it became obvious a Grexit was the only possibility (Afonso et al. 2015: 327); while secondly, despite continual supranational pressure, severe conflict on public sector downsizing persisted, which has been argued to be derived from powerful clientelist links hindering reform (Deutsche Welle 2013).

However, developments have certainly become more pronounced since the election of SYRIZA, whom effectively won election on the basis of opposing austerity. Alexis Tsipras hailed the public response, arguing the government was ‘given a clear, strong, indisputable mandate. Greece has turned a page. Greece is leaving behind destructive austerity, fear and authoritarianism. It is leaving behind five years of humiliation and pain’ (26 January 2015, *The Guardian*). Subsequently, the government explicitly defied creditors on labour market and pension reform, Gabriel Sakellaridis argued there should be mutual concessions and ‘we won't go beyond the limits of our red lines’ (7 May 2015, Reuters).

Equally, former Finance Minister Yanis Varoufakis revealed the government submitted a document to the European Commission termed ‘Ending the Greek Crisis: Structural Reforms, Investment-led Growth & Debt Management’ outlining credible plans for Greece. This point is relatively important since it defies the argument that Greece did not present any alternatives to austerity (Munchau 2014). Nevertheless, he stated that:

‘Crucial to ending the crisis, besides the reform package, is investment. Rather than simply relying on loans from international public and private institutions, the Greek authorities are proposing to harness public assets and lever them up optimally in order to create a homegrown flow of investment funding. Such home-sourced investment funding will then be linked, and boosted further, via the European Investment Bank, the EBRD, the EFSI (Juncker Plan) and, of course, private foreign direct investment’ ‘ (Varoufakis 2015).

Supporting this approach is that Greece has undergone a fiscal stimulus for the first time since the outbreak of the crisis. Recent data from AMECO indicates that under SYRIZA Greece have experienced a fiscal stimulus estimated at 1.3% of GDP, a substantial difference to the 2011-2014 period where expenditure was cut by roughly -7.0% of GDP. In fact, the election of SYRIZA was heralded as victory for the social partners and SYRIZA immediately sought to explicitly recognize the union's demands and undermined enshrined austerity by pledging to restore wage and pension levels in the name of social justice and increasing demand (TUC 2015), whilst also proposing to the Troika for a restoration of collective bargaining in April 2015 (Schulten 2015).

A qualification must be made, however, given that the government was forced to submit to a third Memorandum. There are a number of reasons for this: firstly, the Greek government did not appreciate the EU's institutional advantage of unanimity, insomuch that it is extremely difficult to get any proposal accepted (Finke et al. 2013). Therefore, in spite of the government insisting their position represented the will of the people, and Tsipras urging a political solution, his proposals were rejected considering decisions are made by the institutions (Tsebelis 2016: 26). Extending this negotiation imbalance is the favourable liquidity of the EU, which provides sufficient time to overcome Greek pressure. Ultimately, 'the Greek leadership did not understand that the negotiating deck was stacked in the EU's favour, and wasted time learning the obvious' (Ibid). SYRIZA had to succumb to the demands of the Troika in order to avoid a Grexit, and given the understanding of the importance of staying in the EU, another Memorandum had to be suffered.

Given this analysis it is possible to characterize labour market policy throughout the crisis, utilizing the key hypotheses from the literature of dualization, liberalization, and recalibration. The data reflects that Greece undertook deep cuts in protection for regular workers, while protection for collective dismissal remained relatively consistent (Moreira et al. 2015: 215). Further,1 cuts against individual dismissal were more severe than cuts in unemployment benefit. In essence, it is perceived that some of the most impactful measures introduced were not intended to affect the security of regular workers, rather rebalancing the system by providing additional unemployment protection to groups not previously covered. Therefore, although unemployment protection was reduced for regular workers, access to unemployment benefit was not reduced (Ibid. 216), thus indicating that the process of liberalization has been limited to a certain extent – resulting in what some scholars would refer to as recalibration (e.g. Picot and Tassinari 2014).

In addition, taken in context it is clear that Greece's policies were not that extreme with regards to reducing protection. In fact, almost all Eurozone countries adopted the same line of policy – with the deepest cuts occurring in Belgium and the Slovak Republic, in spite of said countries not being under conditionality. Further still, even the Netherlands undertook greater cuts than Greece despite not being under external conditionality (Ibid), although it should be qualified that they were not in a deep recession and could bear the burden of adjustment; instead, the point of note is that Greece was required to do so and did not. The supranational pressure for reform clearly desired movements towards liberalization, yet looking at the most significant changes in protection – where the greatest pressure was felt – there was only a rebalancing of the system rather than outright liberalization, ensuring dualization persisted.

From a historical perspective, it is clear this process is a continuation of the previous decades in labour market reform, albeit in a far more extreme manner. Throughout the process of European integration, Greece responded to supranational pressures for reform by implementing wide-ranging reforms that had been resisted in the year prior to the crisis; but the process stopped short of outright liberalization. Instead, the lack of liberalization saw a rebalancing of the existing system, with many of the previous deficiencies remaining and in particular, unlike other Southern European economies, did not become any less insider biased (Hemerijck 2013: 204). It was observed that vested interests were able to slow down the process of reform, and even halt it altogether, again a feature that occurred somewhat during the crisis. In spite of following the same rhetoric of other states during the pre-crisis years with regards to reform, process was slow (Lyberaki and Tinios 2015). As such, the crisis provided the necessary political impetus, through necessity, pressure, and conditionality, to enact reforms but these reforms fell short of liberalization.

3.66 Domestic Interests - Actions

Greece has traditionally lacked a serious industrial framework, and the crisis witnessed the exclusion of the unions from social concertation as well as the dismantling of collective bargaining. This latter point is reflected by the dramatic decline in collective agreements, which signifies the disempowerment of the unions as representatives of workers – with only 11 such agreements in place in 2014 (Kennedy 2014). This has been founded on a process of 'derogation:' whereby firm level agreements diverge from sectoral standards; the transferable of the ability to determine the minimum wage away from the social partners; existing collective agreements have been subject to arbitrary legislative annulment – primarily to enforce public sector wage freezes; the extent of collective bargaining coverage has declined and the length of time that collective agreements remain has been reduced; finally, the rights of unions to bargain at a firm level has been weakened.

At the same time, precariousness has become a major issue in Greece and further challenges the role of the unions. There is a two-fold problem for the unions according to research: firstly, there is not an attitudinal shift to unionism across generations, insomuch that the young generation do not feel obliged to be unionized; while secondly, there are problems of mobilizing precarious workers as unionism is still based on a 'core' permanent workforce (Krestos 2013). Even still, while these unions have made strides to develop structures to incorporate this growing group, thus far attempts have been largely unsuccessful.

However, while social partners lacked the traditional macro-level capabilities of social dialogue that the unions had based their influence off for the previous decades (Daskalakis 1995), instead, collective action remained. Data by Hamann, Johnson and Kelly (2013) proposes that Greek strike action has increased markedly in line with reforms on welfare, pensions, and the labour market. This is well-documented as interest-defence, and became prevalent as the only means of operating without dialogue (Matsaganis 2007).

Furthermore, Hamann et al. (2013) demonstrate through an extensive cross-country analysis that General Strikes have substantial impact upon electoral support. Based on this understanding three key consequences can be observed in Greece: firstly, 2012 witnessed the largest disturbances in terms of strikes, rallies, and stoppages, which also saw the collapse of PASOK and its support. This year is also the period where tensions between the unions and the government came to the fore. The second consistency can be found in 2014 where support for SYRIZA appeared to escalate. A general strike on 27 November 2014 effectively shut the country down, this strike was the first in seven months, representing a new turning point in the protest against austerity with GSEE General Secretary Nikos Kioutsoukis arguing ‘We are sending a message to the government, the EU and the IMF: Greek people cannot take it anymore’ (Reuters October 24, 2014). Following the strike the then Prime Minister Antonis Samaras made a plea to voters and MP’s to vote against SYRIZA in face of promising polls for the radical party.

A final consideration is that over five years, 33 General Strikes were undertaken by the working class against PASOK and ND governments. However, only one General Strike has been undertaken against Tsipras’ government prior to 2016, in response to the third bailout vote and subsequent austerity. The inference supports the perception that SYRIZA had responded more to societal considerations than the previous administrations, but this now has become contentious following the Third Memorandum.It has been portrayed as an unacceptable betrayal of trust, epitomized by a divergence within the party itself with 25 leaving to form “Popular Unity.” Supporting data from elite interviewing suggests that the unions were sceptical of the capabilities of the government initially, but hopeful of some semblance of change. Mr Argedis of GSEE, for instance, stated that it was clear SYRIZA were not going to be able to change much, but there had to be hope. A significant week of strikes beginning on 1st Feburary 2016 perhaps signifies the end of this hope however.

Perhaps the most significant aspect of these actions was that mobilizations by the unions empowered citizens towards the development of self-help and direct actions. The multitude of action had a significant impact on the electoral arena, dramatically strengthening the radical left, culminating with the eventual success of SYRIZA in 2015. Although it has been demonstrated that SYRIZA have struggled against the will of supranational pressure, there has been active support of the government since in supporting the unions.

Nevertheless, one key benefit to emerge from the episode has been the revision of collective bargaining procedures (Schulten 2015). By 2015, collective agreements had reached an all-time low, with only 19 industry and organization agreements in 2015 up to August, down from 231 in 2008 (Greek arbitration board OMED and Greek Ministry of Labour 2015). SYRIZA have ensured the restoration of collective bargaining remains one of the top priorities, both for democratic and economic purposes. The continuing failures of compliance, implementation, and accuracy of policy measures can in many ways be attributed to the lack of consultation with the unions, a feature heavily criticized by ILO since 2012 (ILO 2012: 273).

There were two rather unorthodox avenues that the unions have been successful in exploiting. Domestically, the unions have turned to the Constitutional court, while internationally, the emergent democratic deficit has become widely recognized (Matsaganis and Leventi 2014). Supranational organizations, such as the ILO, have been effective in supporting the unions and utilizing constitutional and legitimacy concerns to further their interests. Symbolic of this intervention has been successful pressure to overturn pension and wage cuts: in January 2014, the Council of State overturned wage cuts to policemen and soldiers imposed in 2012 under recommendation of the Troika due to their unconstitutional nature; similarly, in 2015 Greece's top administrative Court Council of State ruled that the pension cuts of 2012 imposed by the Troika were against unconstitutional. In addition, significant pressure from the ILO ensured that the role and instruments of the ILO cannot be ignored, as specified by Article 26 of the European Social Charter that specifies a representative of the ILO shall be present in the deliberations of the European Committee of Social Rights, which clearly expresses the link between the protection of social rights in Europe and the protection of social rights at universal level. The ILO will play a crucial role in the future role of the unions, their commitment to an effective collective bargaining system with strong industry-wide agreements and high collective agreement coverage, coupled with support from SYRIZA, has resulted in their inclusion in the bargaining process for labour market reform (Schulten 2015: 5). This reflects that on some levels both the government, and perhaps even the Troika, must be responsive to the societal conditions in Greece.

These are highly symbolic developments. As argued by Dr Theochari: 'Everything trade unions do in this direction of course strengthens its position, presence, and reputation towards its members.' The government must recognize these issues and heed the warnings of the unions far more than previously, particularly considering the prevalence of such measures in the coming years and the severity of the social situation that continues to decline.

The framework suggests that societal considerations become more influential when ideas and interests converge. While the public's perception of the unions was largely negative, their priorities aligned and there is a clear reinforcement of domestic interests by ideas. There is a number of consistencies of both government position and their actions with domestic interests, particularly prevalent since SYRIZA obtained power. Further, given the clientelist linkages that exist it is predicted that preferential policy should exist. While it is difficult to accurately address this issue, there is anecdotal evidence to support their continuation, again a feature that reinforces the consideration of domestic interests.

3.7 Discussion

This section presents a discussion of the results. It considers the hypotheses in light of the above evidence and analysis, while equally stressing a number of essential qualifications on the findings and insights suggested by this work.

This work put forth a societal approach to government preference formation that intended to illustrate the prevalence of domestic politics in the crisis management of Greece throughout the financial crisis. The work extended this framework in identifying the significant politicization that has occurred as a consequence of this mismanagement. These findings are significant in reinforcing the earlier work of Hooghe and Marks (2008) that European integration developments during this period, at least with reference to Greece, may best be conceptualized within a postfunctionalist framework. At the same time, the work also suggests earlier suggestions of Armingeon and Ceka (2013) actually understate the significance of politicization during the crisis.

Both H1 and H2 were both observed through the regression model developed by this work. This supports the postfunctionalist prediction of extensive politicization of European integration. Firstly, the evaluation clearly outlines the politicization of public opinion vis-à-vis the EU, both throughout European history and during the crisis years, supporting H1. It is observed that the strongest correlation, with respect to the EU, revolves around both future-level expectations – suggested to indicate a perception of crisis management – and the labour market, notably personal job evaluation and expectations, over and above that when regressed against national trust. These latter considerations are consistent with both H2 and H4. The pseudo R2 indicates that expectations are more accurate predictors of trust levels, although future-expectations are generally more significant indicators of national trust. However, the accuracy of EU trust models are higher, which equally displays the prominence of individual-level indicators. These observations together support the core hypothesis H1, and suggest the prevalence of politicization.

These findings are reinforced through consideration of domestic interests. The overriding position of the unions has been anti-austerity, extensively campaigning actively against all virtually all measures. This, therefore, supports H3 in suggesting that there can be witnessed convergence of position between ideas and interests, to a certain extent. Clearly, the employers' associations' position is not consistent with that of the unions or public – to a certain extent. The employers favoured flexibility but not necessarily austerity. This somewhat questions the hypothesis and demonstrates one of the most striking findings of this work: that in spite of severe societal pressure from unions and public opinion, many policy decisions correlate to the preferences of the employers. Particularly in the early years, many of the measures were consistent with the agenda of SEV, with the organization being vocal in support of their implementation. The employers' associations possessed leverage in discussion both on a state-level, with clientelist linkages and not being excluded from policy processes; but also an EU-level, as they were better adapted to the challenges of transnationalization. Finally, and potentially most importantly, their priorities for reform were consistent with the vision of the EU.

However, the qualification is that the employers' have been relatively withdrawn from public proceedings and the active role in society undertaken by the unions may have contributed to a convergence of ideas. Therefore, this active role of the unions and public in opposing austerity and labour market reform indeed presented a significant obstacle to government policy formation.; although, the explicit support of the employers' certainly offset this to a degree. Yet, the opposition of the unions is equally consistent with public opinion and supports H4 likewise. Consequently, given this understanding, it should be expected that government preferences should be affected by these imposing societal forces. The policy analysis represents that the measures undertaken in Greece have diverged notably from the expectations of the Troika, whilst implementation especially has been poor. Furthermore, there has been an overriding emphasis on quantitative devaluation, representing short-term and reversible measures – which are argued to limit the electoral impact. These developments go some way to supporting the core hypothesis, H5, even in spite of the displayed consistencies with the preferences of the employers. In either case, it may be argued that in policy areas that have been most contested by the unions and public opinion, implementation has faltered; where the EU and employers' have aligned, and public opinion in particular has not been as active, thus the employers have had significant influence. In both cases, domestic considerations have played a defining role, albeit positive or negative, demonstrating support for H5.

As such, while it cannot be definitively proven, there are sufficient clear consistencies of government action with societal considerations that would suggest government preference formation has been fundamentally altered. The clear observation that despite conditionality and technocratic oversight, Greek policy decisions and implementation continually diverge from expectations is significant. Furthermore, there are various anecdotal incidences that clearly display rent-seeking tendencies. Therefore, this work suggests that the predictions of postfunctionalism may be observed in the case of Greece and domestic politics has played a crucial role in crisis management. What becomes clear is that the political cost of conditionality is too severe for governments to adhere to, and this becomes even more pronounced following politicization.

Greek labour market and social reform has traditionally been a “politically sensitive” area, which is why it has been necessary to depoliticize reform through technocratic interventions. Greek society has reflected a reluctance to undertake perceived necessary changes, specifically ‘the hyper-fragmented character of Greek society and its mechanism of interest representation have posed insurmountable obstacles to the formation of adequate social and political consensus about reforms’ (Ferrera, 2005: 37). For this reason the Greek labour market remains a une société bloquée, a system buttressed by clientelism and rent-seeking activities, whereby domestic pressure will inevitably urge to maintain the status quo. This has also fed into public opinion, particularly as levels of European intrusiveness increased (Theodoropoulou 2014: 32). It is also reflective of the fact that a ‘lack of social consensus and opposition to change is a crucial parameter in Greek politics’ (Tzogopoulos 2013: 55). Theodoropoulou (2014) notes, the more politically / technically difficult the reforms have been to implement, the greater the levels of intrusiveness - which is particularly true for the labour market. Thus, both in response to self-interest and opposition to the ideational cleavages that have emerged, public opinion response to labour market changes too increased.

In fact, the attempted dismantling of the clientelist system within Greece may be to the detriment of society. While the mainstream argument cites such tendencies are restrictive of reform and inefficient (Tinios 2010: 10; Ferrera 2005: 40), it has equally been put forth that since the mid-1990's clientelism has been crucial in the legitimization of the neo-liberal project in Greece (Tsakalotos 2010: 2). Clientelism became a response to the negative consequences of an ineffective labour market, rather than the causation, with the public sector dampening the effects of unemployment and poverty (cf. Katrougalos and Lazaridis 2003: 63). This feature was firmly supported by Nicos Poulantzas research institute through interviewing, with clientelism actually being essential to livelihood.

Indeed, the dismantling of collective bargaining and the assault on society has seen a transformation within the working class. The evidence demonstrates the relative ineffectiveness of trade unions to effectively defend workers, thus workers have formed new unions, even occasionally ones rooted in traditions of anarchism and syndicalism (Burgmann 2016: 240). The force of globalization has forced workers to respond and utilize novel forms of direct action in order to defend their self-interest. This actual plays into the idiosyncrasy of the labour-capital relationship: capital is ultimately dependent on, and therefore the inherent power lies with, that of labour – labour is essential for profit-making and thus capital cannot destroy the antagonist. This theoretical disposition is drawn from Autonomist Marxism that recognizes the power of capital and subordination of labour, yet stresses the power of labour due to its autonomy and ensures that capital ids dependent on it. Thus, this struggle for labour unrest 'is shaped by and shapes world-economic and political processes' (Silver 2003).

It is argued these changes have been derived from German "ordo-liberalism," which urges for tough rules and domestic government responsibility and conflicts with the expectations of the Greek public, and is encapsulated in the Troika's "one-size-fits-all" policy. This evidence is supported through interviewing whereby the unions in particular were heavily critical of this "German" inspired approach. Evidencing this necessity has been the paralleled rise of job insecurity and inherent unemployment issues, long prior to the eventual crisis, in line with flexibilization. Deregulation and flexibility was pursued throughout the 1990's and by 2005 Greek labour protection was only slightly greater than Germany, 2.97 to 2.63 (OECD Employment Protection Database), indicating that not only was the Greek labour market already flexible at the onset of the crisis, but it is incompatible with the Greek economic system. Again, this is a point strongly put forth by GSEE with Mr Agredis stressing on numerous occasions that the Greek system is not compatible with the policy mix put forth by the Troika, insomuch that it is founded on domestic demand rather than exports and thus flexibility undermines the core economic interests of the nation.

Further still, austerity has been largely criticized outside of Greece (e.g. Guajardo, Leigh and Pescaroti 2011; Ball et al 2013; Storm and Naastepad 2015). Ultimately, 'cutting wages (internal devaluation) and deregulating labour markets undermines a country's competitiveness and stall export growth; combined with fiscal austerity this policy cocktail is lethal' (Storm and Naastepad 2015: 23). Thus, there appears to be at least some justification in the Greek antithetic position to austerity and labour market reform

These considerations are supported by economic literature, especially since it is predicted that the attempted imposition of labour market reform from external sources is likely to 'backfire' (Boeri and Jimeno 2015). There are two key aspect which have been suggested as possibilities for this: firstly, that reforms may be lost in translation; while secondly, that they are misguided. Both are certainly true in the Greek case. The former was originally corrected by the Troika by substantially expanding their prescriptions to Greece, as identified through the number of document pages escalating with each review (Terzi 2015). Yet, even this may not be a total solution since it is often observed governments do not take ownership of measures and have the willpower to make them succeed. This point is particularly important when considering the societal opposition to such measures, insomuch that it is observed even when measures were correct in their specification they remained unimplemented (Blanchard et al. 2014). The latter, however, remains a prevalent concern. Evidence indicates that the reforms were inherently flawed, since: they were undertaken under pro-cyclical conditions; emphasized internal devaluation amidst a recession; ignored other potential competitive-enhancing measures; not encouraging adjustment along the intensive margin via short-term work, working time, and plant-level accounts; and not ensuring sustainable pension reductions (Boeri and Jimeno 2015).

This latter point poses serious questions over the process of crisis management. The lack of consultation has been legitimized through a discourse of necessity and a belief that the unions were upholding an inefficient system. However, given limited input there is questionable input-legitimacy of policy, which is certainly not vindicated by any semblance of output-legitimacy given the exacerbation of socioeconomic deterioration (Scharpf 1997). This particular characteristic is strongly noted by Lanara-Tzotze (2012) of the European Economic and Social Committee, whom argues that the renegotiation of measures via social concertation would be crucially important to alleviating negative impact and social tension, while also reflecting on the lack of recognition of social cohesion by the creditors. Even further, the problem is exacerbated by the disregard or misunderstanding for Greek political economic systematic intricacies, such as the fact that there is significant flexibility within the Greek system but a lack of regulation (Dedoussopoulos et al. 2013: 20), as well as a dismantling of formal social protection in an economy that relies on a system of the informal family for social welfare, that in itself is being severely tested by austerity, resulting in a ‘‘vicious competition’ for limited liquidity’ (Lyberaki and Tinios 2014: 2015).

Most worryingly is the manner by which Greece has been an “experiment” (Polychroniou 2011). In the second Memorandum, it was stressed that ‘social considerations have always been present in the design of the programme’ (European Commission 2012: 8). However, if one considers the specifics of the documents provided to Greece in the form of conditionality, there is no mention of equity, equality, nor fairness (Sapir et al. 2014). Further, the European Commission also stated that ‘cuts in pensions have been targeted, with the aim of protecting the lowest pensions’ (European Commission 2012: 8). Yet, the recent Memorandum put a strong emphasis on further pension consolidation, pushing for at least one percent GDP, or €741 million from pensions. Even if the government does not have to cut the lowest pensions in this attempt, already 44.8 percent of pensioners live below the poverty line – which is significant in a country where roughly 52 percent of the population rely on pensions as their major source of income (GSEVEE 2015). It is inevitable that such cuts will only worsen the level of social welfare for pensioners that are already struggling and therefore presenting additional questions over social justice. The same can be seen with respect to labour market deregulation, that in spite of an already impressive level of structural reform and respectable reduction in employment protection, pressure persists for further targeted measures to improve flexibility. This pressure, however, has merely translated into additional social concerns and rising levels of precariousness, as summarized by Gialis et al. (2015: 1): ‘The Greek labour market, already marked by high flexibility and poor job security and social benefits, recent regulatory reforms increasing flexibilization have deteriorated labour and devalued atypical employment.’

SYRIZA was able to capitalize on domestic negativity and problematized and politicized austerity on the basis of ideals and principles such as human dignity (Bozkurt-Gungen 2014: 500). However, the issue comes with the manner by which SYRIZA has attempted to govern an evolving constellation of interests. Above all, retaining power is the logical ambition for the party, particularly considering they have transformed the party-system, consolidation is the priority. Yet, the strategy to increase vote shares promotes a short-term strategy that appeals to different groups of voters with diverse preferences (Somer-Topcu 2014). This process attempts to convince varying groups that they are ideologically close to them. Given this process, SYRIZA can be seen to be transforming, in a manner Gramsci might describe as, a wide-reaching coalition with the aim of accommodating a broad range of interests. This may not be an effective means of tackling the crisis, yet what is clear from this is the prominence of powerful societal considerations.

It has been this emphasis on satisfying certain societal groups has resulted in a concentration on short-term measures. When asked on how the government decides on which policies to adopt, an economist from IME-GSEVEE replied: ‘I think the decision of every government that this was completely taken upon the objective of receiving much more money for the sake of the deficit and debt, nothing else.’ It is quite possible this was derived from societal considerations, or for rent-seeking purposes. Indeed, in response a question of the power of public opinion in government decision-making, MP Panos Trigazis confirmed that public opinion had been extremely important, which is highly related to the line of argument put forth by Mr Massourakis with respect to the political ramifications of adhering to conditionality: ‘it’s a very difficult situation because politically the government is not inclined to implement the programme quickly.’ Ultimately, the government favours either short-term measures or an attempt to off-put reform as much as possible, which in turn undermines the recovery effort (Featherstone 2015).

Consequently, the above analysis indicates the importance that the regression analysis holds in evaluating the role of public opinion. Even prior to the crisis it is appreciated that societal considerations held an important role in the political process, with labour reforms in particular being highly sensitive. While technocratic interventions have sufficed to overcome domestic interests, and impose certain measures, it has certainly contributed to a further deterioration of public opinion. Equally, the continual socio-economic decline, attribution of illegitimacy, and negation of domestic considerations have equally exacerbated this setting. Therefore, the more the crisis escalated so the more urgent reforms became. Yet, at the same time, the more societal considerations became vigilant in opposition to further intervention. Ladi and Graziano (2014) demonstrate how the more difficult the implementation of adjustment measures, so the higher levels of intrusiveness; but this has an inevitable feedback of increasing domestic resilience. The process of crisis management, therefore, has in itself intensified societal considerations and particularly public opinion.

3.8 Conclusion

To conclude, this work puts forth that societal considerations have demonstrably affected the process of crisis management in Greece. Both the position of government as well as implementation of policy has been consistent with varying societal influence. Thus, this work disagrees with the critique of Schimmelfennig (2014), at least in relation to the case of Greece. Schimmelfennig argues:

‘Governments have been able to shield their crisis policy and deepening of Eurozone integration, first, by excluding Euro-sceptic parties from government, second, by, designing new treaties and the treaty-making procedure so that the threat of referendums and ratification failure was minimized and, third, by further empowering supranational'

This work does not disagree with the premise, that European integration processes have been maintained through an isolation of the decision-making process – this much is evident – but more that the severity of politicization and public opinion deterioration has in fact restricted crisis management nonetheless. Indeed, this work hypothesized that the continued ineffectiveness of crisis management was unsustainable, and that the declining support for the EU would come to the fore. Developments in 2015 epitomise this and undermine the heart of Schimmelfennig's argument: A Euro-sceptic party came to power, a potential important referendum was held and rejected the proposed path of crisis policy, and the empowered supranational were opposed. The re-election of SYRIZA in September 2015 following the adoption of another Memorandum package is particularly telling. The neo-functionalist argument of supranational empowerment is clearly challenged by the reluctance of SYRIZA to engage with European conditionality; while the priorities of the people firmly reflect their anti-European stance in spite of SYRIZA failing to fulfil its original mandate. The fact that this betrayal, as it has been perceived, went unpunished is indicative of the significance of politicization in Greek society. It was recognized these developments were a possibility, however not necessarily while the crisis was still at its height.

This work suggests that the extensive politicization and negative perception of crisis management has indeed restricted the choices of policy-makers, a feature consistent with the predictions of postfunctionalism. In spite of supranational technocratic oversight, the Greek political economy has faltered, and even has been reluctant to enact many of the specified measures directed by the Troika. The IMF recognizes that unequivocal support is necessary for reform success, which infers the importance of these findings (IMF 2013). The original rhetoric of necessity provided legitimacy to supranational intervention and appeased societal considerations with the retraction of national sovereignty. It also granted governments in power a possibility of enacting previously unattainable reform. However, the continuation of the crisis and realization of the public that necessity was in fact a flawed logic has contributed to what may be seen as a 'postfunctionalist moment.' European integration has clearly moved into the realm of domestic politics and identity, fundamentally challenging the party system and policy process. It would appear that the developments in Greece and process of policy are consistent with the expectations of Hooghe and Marks (2008): with the theorization expecting 'to see downward pressure on the level and scope of integration' (2008, p. 21), a limitation of governments' room to manoeuvre... and a mismatch of functionally efficient and politically feasible solutions' (2008, p. 22-23).

The major consideration is that the Greek people neither trust the EU nor their domestic institutions. The causation of the crisis was largely perceived as a consequence of inefficient and corrupt self-serving domestic institutions. This belief further enabled progress from early European initiatives, however as the effectiveness and motives of said measures became truly realized the atmosphere turned. Even then, the problem remains, aforementioned, that the people trust neither domestic nor supranational institutions, it is just they now distrust the EU more.

This was not intended to be a deliberate critique of Schimmelfennig (2014), but instead a defence of postfunctionalist prediction. It does not, however, completely undermine the original proposition, more qualify the assumptions with respect to Greece. The overarching premise remains largely true: the crisis has intensified integration in some respects, fuelling institutional reform with supranational oversight. However, the Greek case continues to frustrate the Troika and has consistently defied conditionality programmes even from the outset. This problem is inherently related to the clientelist system that underpins Greek society, but has been extended considerably following the progressive politicization of European policy due to a combination of deteriorating socio-economic conditions and a perception of ineffective crisis management. There is no doubt that Greece has made a series of important reform measures, however, relative to the expectation of the Troika and as should be expected theory, there has been far less.

The Greek experiment now stands at a crossroads. The early signs of positivity in 2015 quickly faded and pessimism returned, which has worsened both with the adoption of a third Memorandum and the consequently negative posturing of the economy. So with this negativity the unstable and conflictual social atmosphere has resumed. This third attempt at correcting the fault-lines within the Greek institutional framework and economy may be the last. For the people, it appears options are running out. The only semblance of democracy with the trial of SYRIZA appears to have failed, but at the same time, the people's patience has been more than put to the test by the Troika who refuse to relent on their austerity assault. If, then, this third Memorandum does not restore any hope of economic revival, it would appear that the intervention in Greece should be over.

4.1 Italy

Following from the previous chapter that evaluated the case of Greece, it is readily apparent that societal considerations may have played a profound role throughout the crisis with respect to policy-making preferences and implementation. The crisis of neoliberalism that has generated a class mobilization based on the failed liberalization of the Greek economy and the false economic security following the accession to the EMU (Woodley 2013: 33). The consequential export of jobs and capital to neighbouring countries, compounded by an intense supranational imposed internal devaluation, has become a catalyst for the polarization of the Greek political economy between the generation that benefitted and the emerging 'lost generation.'

The research demonstrated these exact qualities. The logistic regression illustrated the extent of politicization as a consequence of the crisis and policy decisions since. Within this analysis, it is highlighted how labour market reform in particular has been heavily contested, whilst this has also been a core theme of conflict for the unions, strongly founded on this premise of failed liberalization. Indeed, these combined developments are consistent with the theorization of Hooghe and Marks (2008) that the EU crisis may represent a postfunctionalist moment, capable of restricting the scope of integration by hindering the capability of governments to implement necessary policies.

Given this understanding, the work hypothesises that similar circumstances should be observable for the case of Italy. In particular, Italy equally experienced similar ramifications of failed liberalization following accession to the EMU, with an unstable and inefficient implementation of liberalization (Tridico 2013: 5). There is a consensus of a negative relationship linking liberalization and productivity performances in Italy (Faini and Sapir 2005; Ciraci and Palma 2008; Lucidi and Kleinknecht 2009; Codogno 2009; Jona-Lasinio and Vallanti 2013). Yet, it was Italy's historic patron society dominated by right-wing elites protectionist attitudes that provided an unintentional buffer to the crisis (Blyth and Hopkin 2010). The continued pressure of the EU to attack these domestic roots and liberalize the economy should have intensified societal considerations following the crisis. These measures challenge the status quo and have the potential to intensify domestic political factors (Bongardt and Torres 2016). This feature is certainly exacerbated by the fact that many of the measures adopted by the Italian state have been questioned as to their viability and effectiveness in tackling the structural problems of the Italian economy, even continuing with strategies that had previously failed – such as softening firing restrictions (Cirillio and Guarascio 2015; Pini 2012; Atonoioli and Pini 2014; Pini 2014). In accordance with Marzinotto (2015), the work seeks to elaborate on the premise that domestic political factors have been influential to consolidation strategies in the crisis.

On the other hand, perhaps the most intriguing finding was the extent of influence that the employers appear to hold. In spite of significant politicization and the challenges of the unions, there are strong consistencies with the demands of the employers throughout the crisis with respect to policy decisions. A plausible explanation may be related to both the insider privileges that the employers hold at a state level, as well as the way in which they have effectively adapted to the challenges of transnationalization, affording them greater leverage at an EU level. This is an important find for two reasons since it both demonstrates that there has not been a complete convergence of position in domestic politics, but equally this is critical for the case of Italy as the employers' traditionally hold exceptional power, and have also been vocal in their support of reform (Talani 2014: 138-139).

The main premise is that even under intense pressure for austerity and reform, consolidation patterns and labour market reform trajectories can diverge considerably (Gourevitch 1989).

The EU and international markets strongly favour liberalization, yet this can occur in different manners, largely due to the fact that domestic politics still matters (Picot and Tassinari 2017). The power of domestic actors, in line with a strong centre-left coalition, should favour embedding flexibilization rather than outright deregulation.

This chapter presents the findings of the research with respect to Italy. It applies the same structure as applied to the Greek case, utilizing an adaptation of Schirm's framework to evaluate the relative influence of domestic ideas and interests on government preference formation. Specifically, the work begins by outlining the core hypotheses before analysing the research on domestic ideas. This section presents firstly a descriptive analysis of public opinion in Italy, by establishing the core values held in society as well as trends in trust levels, before undertaking the multilevel binary logistic regression, which aims to provide a thorough understanding of the central variables affecting both domestic trust and European trust levels. Following this, the work then considers domestic interests presenting a multi-faceted approach: firstly, superficially by considering the relative positions of the key domestic actors; secondly, by considering the established positions against policy developments and structural reform. The final section presents a discussion and concludes.

4.2 Outline of Chapter

The core hypotheses are as follows:

H1: That there has been a continued politicization of public opinion vis-à-vis the European Union.

H2: The perception of crisis management in the public sphere is crucial, whereby a perception of ineffective policies and a supranational imposition has contributed to the deterioration of socio-economic fundamentals, which has been a catalyst for declining public sentiment.

H3: This deterioration of public opinion has been matched by vehement opposition from domestic interests – namely the trade unions. Thus, societal interests and ideas have converged during the crisis, forming a prominent obstacle to effective reform.

H4: Extensive focus on labour market reform has played a defining role in societal considerations. Both the unions and public opinion are expected to oppose measures, while the employers should favour reform.

H5: Consequently, it is hypothesised that government preference formation has been consistent with the positions taken by domestic interests and ideas, and that both policy decisions and their subsequent implementation have been impacted by domestic politics.

The chapter follows the same structure as that undertaken for the previous evaluation of the Greek case. The works postfunctionalist perspective seeks to evaluate the crisis-decision making of the Italian state, evaluating the role of domestic political actors in the policy-process. The Italian case was not as severe as that of Greece, which in turn did not result in direct conditionality. This situation, therefore, provides greater state sovereignty for policy-making and may enable domestic actors to play a more profound role.

At the same time, Italy demonstrates similar socio-economic characteristics to that of Greece (Amable 2003), as well as being in a similar economic situation. These circumstances should provide a compelling analysis for the underlying influences in decision-making as a clear institutional divergence has emerged following the crisis due to the strategies adopted by the respective governments.

It is assumed that the domestic political reaction should be similar. Italy did suffer a severe economic crisis and was subject to intense direct supranational pressure for reform, particularly labour market reform. According to postfunctionalism, this realization of the consequences of European integration should lead to significant politicization vis-à-vis the EU (H1), while the ineffective policies adopted and pressure for further measures that will impact the status quo should intensify that process (H2). At the same time, it is expected that the unions should also converge and support this position (H3). The discrepancy, as was found in the previous chapter, is that the employers' associations largely favour many of the supranational-inspired measures and that the employers generally had a disproportionate influence as was observed by the widespread correlation between their preferences and the policy outcomes. This is also expected to be the case in Italy as the unions had been severely weakened by a continual process of dismantling collective bargaining. H4, therefore, considers that the overwhelming emphasis on labour market reform has mobilized public opinion and the unions against such measures, particularly considering the ineffectiveness throughout the crisis; while, the employers should demonstrate support. Finally, given the dramatic rise of domestic political action, government preference formation should be impacted and policy-creation and implementation will be impacted and there should be a divergence from the case of Greece – in spite of the similar conditions, socio-economic characteristics, and supranational influence (H5).

Domestic Ideas

4.31 Public Opinion

This section presents a descriptive analysis of public opinion in Italy. It begins by presenting a brief historical analysis of public opinion and the EU. This trend holds particular significance in Italy since the general early positivity in Italy enabled a prominent political tactic to ease reform measures, known as *vincolo esterno*. Therefore, the section shall evaluate the importance of this political tactic and how this makes the subsequent dramatic decline in European trust an even more important event.

Support for the EU in Italy has been historically high, an overwhelming optimism that enabled the political tactic of *vincolo esterno*. This prominent political tactic was extensively utilized in the pre-crisis wage cund was essential in ensuring successful reform. Essentially, vincolo esterno was the belief in the necessity of an externally-imposed constraint, in particular to overcome problems in problems posed by the partitocrazia - the domination of government by parties (Dyson 1996). Thus, the strategy empowered technocrats and redistributed political power, but at the same time, had dramatic domestic ramifications in its transformative power.. Therefore, not only does the substantial deterioration of opinion reflect the concerns of the public and in itself present a noticeable obstacle to policy formation and implementation, but also it removes the most successful strategic discourse of government that enabled reform through overcoming domestic opposition.

Featherstone stresses that the domestic perception of Europe is vital for framing these opportunities, that 'whether and how the potential is exploited depends on the will (priorities, interests) and capability (strategies, cognition, institutional position) of actors competing within the particular domestic setting' (Featherstone 2001). Grande (1995) argues both that

European measures require compromising and urgency which limit the scope for domestic influence, emphasising that in reality it is weaker states that benefit from this supranational setting. Indeed, Moravcsik (1994: 1) advances a similar line, arguing that European commitments alter domestic political economies, ‘shifting control over domestic agendas (initiative), altering decision-making procedures (institutions), magnifying informational asymmetries in their favor (information), and multiplying the potential domestic ideological justifications for policies (ideas).’ Further, constructivist approaches also stress how European initiatives have empowered actors and see a convergence of new norms and ideas (Checkel 1997; McNamera 1998).

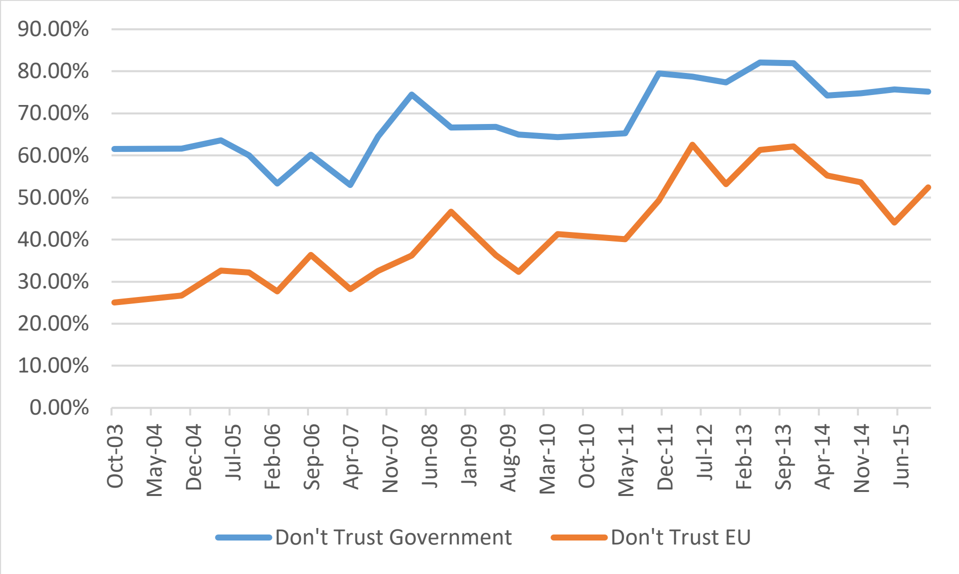
The use of v*incolo esterno* is linked to the ‘pattern of political development and state tradition; the compatibility of appropriate policy beliefs; support for ‘Europe’; the record of economic discipline; and the will and capability of actors to engineer compliance’ (Featherstone 2001). Yet, it was also a necessary impetus for reform. Romano (1991: 666) argues that Italian economic policy-making has traditionally been derived from an institutional setting, whereby deep pessimism has inherently constrained the states capacity to overcome deficiencies with its own political will. Consequently, the EU can be seen as a means of renovating the political system through provide external support, pressure, and influence (Bull and Newell 2005: 212). It was through external pressure that the government was able to implement harsh and unpopular measures and overcome domestic blockages (Cotta 1992: 211; Hine 1992: 57-8; Bindi 1996: 101). Equally, the Italian public have long seen institutional reform as the means to address economic problems (Padovano and Ricciuti 2007).

The key observation has been the dramatic rise of pessimism in a nation that were for a long period the most optimistic in Europe. The figures below demonstrate the levels of public opinion in the pre-crisis phase, taken from Eurobarometer findings. Until around 2002, Italian opinion of European membership was extremely favourable, remaining above the European average. In particular, the 1980's signalled extreme optimism in Italy for further integration. 1988 in particular symbolized the height of optimism, support in Italy for membership rose above 80%, one of the highest recordings across all countries in European history, whilst hope in the Single European Market was also at its peak. The peak and subsequent drop in 2002 correlates to the introduction of the Euro, which with the difficulties of adjustment and ensuing inflation, remains an open wound (Jones 2009: 94).

Figure 21: Public Perception of Membership

Source: Eurobarometer 1-83

Figure 22: Trust in institutions



Source: Eurobarometer 63-83

Table 13: Core domestic political values

	Italy
Most important problem to address first:	
Public Debt	9%
Job Opportunities	64%
Rich-poor gap	6%
Best way to solve economic problems:	
Spend more money	29%
Reduce government debt	59%
Perception of EU	
Intrusive	63%
Inefficient	57%
Does not Understand needs of citizens	77%
Stay with Euro?	45%
Not enough financial support	53%
Source: Pew Research Centre 2013; 2014.	

The above table represents the core values held by society with respect to the manner by which the government should manage the economy. It is clear the overwhelming concern of the electorate is employment, yet believe the priority is to reduce expenditure in order to solve economic problems. This may stress the concerns of the electorate with the continual external pressure for labour market reforms, a process of deregulation that began in the 1990's that promoted non-typical employment contracts (Gallino 2007). The Italian public are highly distrustful of the national government, it is a highly clientelist, if not kleptocratic system (Orsi 2013). Firmly founding these perceptions has been the continued escalation of the tax burden that asphyxiated the economy to accommodate continued spending, or at least limiting spending cuts. The sustainability of such a process is questionable at best given the clientelist nature of the state.

Yet, significantly the perception of the EU is highly negative. In fact, less than 50% would prefer to stay in Europe, which does not necessarily mean a majority want to leave, but is nonetheless important. The majority believe that EU interference in Italy has been negative – both intrusive and inefficient, particularly stressing that the EU does not understand the needs of the Italian public. Thus, while Italy may not be under direct conditionality, the continual external pressure for reform, namely labour market reform, is definitely recognized and felt by the Italian people and is reflected by declining trust levels.

Supporting these observations is evidence from the statements and position of Italian leaders. Indeed, Matteo Renzi's new government made the pledge that job creation and growth, as opposed to austerity, would be the foundations of his policy programme (12 March *2014, BBC*). More recently, Renzi (2015) stated in his periodical newsletter, that we need to 'understand whether Europe will understand that a short-sighted, strict austerity policy get us all nowhere' and there needs to be a recognition of 'Italian interests too.' In late 2015 Renzi risked Brussels ire when revealing a new package proposing business-friendly tax cuts, the removal of the wealth tax, and spending increases. Even earlier, Wintour and Elliott (2011) noted that Berlusconi 'arrived empty-handed' to a G20 summit in Cannes about proposed austerity measures, due to internal conflict within his cabinet.

The Italian public has become disenchanted with politics and with Europe. Italian sentiment towards Europe has fallen to the lowest in the EU, and remains the only nation not to have demonstrated any semblance of resurgence, with the emergence of the anti-European Five Star Movement signifying this downward trend. Declining faith is also represented through voter apathy, with the lowest turnout in history for the latest election. Thus the key inference is that with rising disenchantment is an increasing willingness for change, which in turn increases the likelihood that public opinion will be better represented through policy, given that the relationship of voter preferences and parties' ideological programmes is the predominant mechanism underpinning policy and determines electoral fortune (Hausermann et al. 2013: 232 –3).

The disenchantment of the Italian public definitively altered the political landscape and discourse. The greatest opposition surrounds labour market reform, aforementioned a continuous process of external pressure for change over a number of decades. This too has split the parties, with Renzi facing – and winning – a vote of confidence over his Jobs Act in 2014. Such domestic opposition has often turned into mobilizations and violence. In line with such negativity has been the politicization of public opinion, whereby the Italian people have turned against the EU and their intrusion into the domestic realm.

4.4 Empirical Analysis

The previous section undertook a descriptive analysis of domestic ideas. It portrayed the key positions held by the public with respect to the government's actions and priorities during the crisis, as well as outlining perceptions of the EU. This following section shall elaborate on this understanding by presenting a multi-level binary logistic regression utilizing Eurobarometer data in order to evaluate the key determinants of trust in both the EU and national institutions.

First, below are the variable coding and descriptive statistics for the data. Following this, the multi-level binary logistic regression results are presented.

Table 14: Variable coding

Variable	Measurement
Trust in EU	1 if answered "tend to trust", 0 if answered "tend not to trust", missing if answered "don't know"
Trust in National Government	1 if answered "tend to trust", 0 if answered "tend not to trust", missing if answered "don't know"
Sex	Dummy variable (1 = female, 0 if male)
Age	Recoded into four groups. Dummy variables: 15-24, 25-39, 40-54, 55 years and older
Occupation	Dummy variables: self-employed, managers, manual occupation, non-manual occupation, other (retired, student, unemployed and house person). The 'other' group forms the reference category.
Education	Measured as the age a respondent finished full-time education. Dummy variables: aged 15 and under, 16–18 years, 19 and over, still in education. Those who left education aged 15 and under are the reference category
Life Satisfaction	4: very satisfied, 3: fairly; 2: not very; 1: not at all
Future Employment Expectation	3: same; 2: worse; 1: better
Future Life Expectation	3: same; 2: worse; 1: better
Future Personal Job Expectation	3: same; 2: worse; 1: better
Future Economic Expectation	3: same; 2: worse; 1: better
Future Financial Expectation	3: same; 2: worse; 1: better
Employment Situation	4: very bad; 3: rather bad; 2: rather good; 1: very good
Personal Employment Situation	4: very bad; 3: rather bad; 2: rather good; 1: very good
Financial Situation	4: very bad; 3: rather bad; 2: rather good; 1: very good
Economic Situation	4: very bad; 3: rather bad; 2: rather good; 1: very good
Perception of European Democracy	4: very satisfied, 3: fairly; 2: not very; 1: not at all
Perception of Domestic Democracy	4: very satisfied, 3: fairly; 2: not very; 1: not at all
Unemployment	National unemployment in percentage points, 6-month average prior to the survey fieldwork
GDP	GDP in $USD, 6-month averager prior to survey fieldwork

Tables 15: Descriptive Statistics

All Years					
Variable	Obs	Mean	St. Dev.	Min	Max
Trust in EU	20539	0.5	0.5	0	1
Trust in National Government	22330	0.76	0.429	0	1
Sex	24492	0.57	0.496	0	1
Age	24492	2.82	0.99	1	4
Occupation	24492	3.73	1.439	1	5
Education	23823	1.93	0.982	1	4
Life Satisfaction	24395	2.3	0.716	1	4
Future Employment Expectation	23303	2.13	0.741	1	3
Future Life Expectation	22963	2.26	0.878	1	3
Future Personal Job Expectation	23046	2.39	0.825	1	3
Future Economic Expectation	23164	2.15	0.757	1	3
Future Financial Expectation	23399	2.36	0.811	1	3
Employment Situation	19234	3.3	0.713	1	4
Personal Employment Situation	14122	2.57	0.781	1	4
Financial Situation	17945	2.52	0.709	1	4
Economic Situation	20173	3.16	0.719	1	4
Perception of European Democracy	14232	2.59	0.802	1	4
Perception of Domestic Democracy	16020	2.79	0.854	1	4
Unemployment	24492	-0.2643	2.13	-5.5	2
GDP	24492	8.9204	2.24	5.8	13

Crisis Years					
Variable	Obs	Mean	St. Dev.	Min	Max
Trust in EU	10293	0.62	0.485	0	1
Trust in National Government	11262	0.82	0.383	0	1
Sex	12244	0.55	0.497	0	1
Age	12244	2.91	0.989	1	4
Occupation	12244	3.75	1.439	1	5
Education	11973	1.6	0.851	1	4
Life Satisfaction	12202	2.38	0.728	1	4
Future Employment Expectation	11701	2.1	0.741	1	3
Future Life Expectation	11413	2.37	0.831	1	3
Future Personal Job Expectation	11405	2.43	0.795	1	3
Future Economic Expectation	11552	2.14	0.763	1	3
Future Financial Expectation	11634	2.4	0.783	1	3
Employment Situation	12162	3.41	0.667	1	4
Personal Employment Situation	11255	2.59	0.785	1	4
Financial Situation	11973	2.53	0.714	1	4
Economic Situation	12157	3.29	0.677	1	4
Perception of European Democracy	8987	2.7	0.805	1	4
Perception of Domestic Democracy	10027	2.88	0.843	1	4
Unemployment	12244	10.69	1.8	8	13
GDP	12244	-0.282	1.544	-2.8	1.7

Table 16:

Logisitic Regression - European Trust, All Years										
		Model 1	Model 2	Model 3	Model 4a	Model 4b	Model 5a	Model 5b	Model 6	Model 7
		Exp(B)								
Constant		1.606***	1.558***	0.49***	0.60***	.169***	.022***	0.88***	0.077***	0.39***
Individual-level variables										
Country Employment Expectation	Better						Ref**	Ref***	Ref***	Ref**
	Worse						1.132	1.83***	1.896***	1.365*
	Same						1.362**	1.829***	1.984***	1.536***
Personal Job Expectation	Better						Ref***	Ref***	Ref**	Ref**
	Worse						1.594***	1.491****	1.338**	1.1411*
	Same						0.885	0.948	1.201	1.133
Economic Expectation	Better						Ref**	Ref***	Ref***	Ref
	Worse						1.132	1.610***	1.457***	1.2
	Same						1.362**	1.481***	1.360***	1.242
Financial Expectation	Better						Ref**	Ref***	Ref**	Ref
	Worse						1.159	1.118	0.936	1.133
	Same						0.883	0.770***	0.772**	1.037
Life Expectation	Better						Ref***	Ref***	Ref	Ref
	Worse						1.728***	1.557***	1.209	1.139
	Same						1.394***	1.288***	1.099	1.1016
Country Employment Situation	Very Satisfied				Ref	Ref			Ref	Ref
	Satisfied				0.834	0.891			0.972	0.788
	Not Very Satisfied				0.696	0.832			0.909	0.683
	Not At All Satisfied				0.587	0.768			0.834	0.585
Personal Job Situation	Very Satisfied				Ref***	Ref***			Ref***	Ref**
	Satisfied				1.118	1.162			1.144	1.077
	Not Very Satisfied				1.576*	1.747***			1.582***	1.426
	Not At All Satisfied				1.804*	1.878***			1.874***	1.702*
Financial Situation	Very Satisfied				Ref***	Ref***			Ref***	Ref***
	Satisfied				0.874	1.161			1.134	0.919
	Not Very Satisfied				1.464	1.887***			1.620**	1.265
	Not At All Satisfied				1.953*	3.829***			2.984***	1.604
Economic Situation	Very Satisfied				Ref**	Ref***			Ref***	Ref**
	Satisfied				0.763	0.826			0.885	0.799
	Not Very Satisfied				0.615	0.906			1.037	0.662
	Not At All Satisfied				0.828	1.481			1.624*	0.875
Life Satisfaction	Very Satisfied				Ref	Ref***			Ref***	Ref
	Satisfied				1.1018	1.220*			1.09	0.948
	Not Very Satisfied				1.174	1.906***			1.471***	0.985
	Not At All Satisfied				1.462	2.663***			1.970***	1.207
Control Variables										
Gender	Male		1.108	1.177*	1.144	1.047	1.109	1.073*	1.082	1.161*
Age	15-24		Ref	Ref	Ref	Ref	Ref**	Ref***	Ref	Ref
	25-39		1.133	1.065	1.063	1.124	0.965	1.025	1.099	1.064
	40-54		1.049	0.958	0.939	1	0.832	0.88	0.963	0.898
	55+		0.922	0.864	0.963	1.054	0.759*	0.830*	0.971	0.89
Occupation	Self-Employed		Ref***	Ref***	Ref	Ref*	Ref***	Ref***	Ref	Ref
	Managers		0.804	0.819	0.896	0.931	0.793	0.795**	0.931	0.871
	Other White Collar		1.06	1.1013	1.025	1.119	1.022	0.964	1.095	0.972
	Manual Labour		1.458***	1.336*	1.203	1.206*	1.242*	1.202**	1.174*	1.17
	Other		1.619***	1.325**	1.085	1.177*	1.290**	1.324***	1.166*	1.073
Education	Up to 15 years		Ref***	Ref***	Ref***	Ref***	Ref***	Ref***	Ref***	Ref***
	16-18 years		0.554***	0.691***	0.773**	0.674***	0.732***	0.646***	0.701***	0.775**
	19 years		0.340***	0.573***	0.604***	0.603***	0.571***	0.543***	0.586***	0.598***
	Still Studying		0.411***	0.788	0.886	0.571***	0.396***	0.383***	0.584***	0.86
GDP				0.986	0.99	1.003	0.987	0.976**	1.1012	1
Unemployment				1.126***	1.147***	1.130***	1.171***	1.210***	1.147***	1.162***
Domestic Trust	Do Not Trust			14.03***	13.032***		11.042***			12.080***
Domestic Democracy Satisfaction	Very Satisfied			Ref***	Ref***		Ref***			Ref***
	Satisfied			0.564***	0.607**		0.651***			0.596***
	Not Very Satisfied			0.292***	0.330***		0.350***			0.328***
	Not At All Satisfied			0.210***	0.231***		0.291***			0.236***
European Democracy	Very Satisfied			Ref***	Ref***		Ref***			Ref***
	Satisfied			0.878	0.902		0.927			0.904
	Not Very Satisfied			6.485***	5.816***		5.166***			5.591***
	Not At All Satisfied			30.575***	21.750***		21.691***			20.781***
Nagelkerke R Square			0.069	0.488	0.516	0.222	0.513	0.206	0.273	0.528

*Note: * Denotes p<0.05, ** denotes p<0.01 *** denotes p<0.001*

Table 17:

Logisitic Regression - European Trust, Crisis										
		Model 1	Model 2	Model 3	Model 4a	Model 4b	Model 5a	Model 5b	Model 6	Model 7
						Exp(B)				
Constant		1.777***	1.441**	0.069***	0.115***	.268***	0.031***	0.119***	0.093***	0.079***
Individual-level variables										
Country Employment Expectation	Better						Ref***	Ref***	Ref***	Ref***
	Worse						1.455**	2.260***	2.026***	1.497**
	Same						1.738***	2.408***	2.110***	1.675***
Personal Job Expectation	Better						Ref**	Ref***	Ref*	Ref
	Worse						1.504**	1.389**	1.249	1.322
	Same						0.989	0.887	0.961	1.043
Economic Expectation	Better						Ref	Ref***	Ref**	Ref*
	Worse						1.138	1.488***	1.376**	1.062
	Same						1.333	1.599***	1.418***	1.029
Financial Expectation	Better						Ref	Ref***	Ref*	Ref
	Worse						1.192	1.081	0.898	1.066
	Same						0.921	0.701***	0.778*	1.029
Life Expectation	Better						Ref	Ref***	Ref*	Ref
	Worse						1.412*	1.543***	1.287*	1.218
	Same						1.213	1.376***	1.211*	1.213
Country Employment Situation	Very Satisfied				Ref*	Ref			Ref	Ref
	Satisfied				0.676	0.867			0.912	0.613
	Not Very Satisfied				0.539	0.796			0.825	0.502
	Not At All Satisfied				0.460*	0.726			0.74	0.439*
Personal Job Situation	Very Satisfied				Ref*	Ref***			Ref***	Ref*
	Satisfied				1.044	1.167			1.173	1.005
	Not Very Satisfied				1.372	1.679***			1.544**	1.258
	Not At All Satisfied				1.671*	1.831***			1.862***	1.585
Financial Situation	Very Satisfied				Ref***	Ref***			Ref***	Ref***
	Satisfied				0.929	1.129			1.098	0.857
	Not Very Satisfied				1.576	1.909			1.634**	1.348
	Not At All Satisfied				1.947*	3.919			2.968***	1.569
Economic Situation	Very Satisfied				Ref**	Ref***			Ref***	Ref*
	Satisfied				0.656	0.727			0.78	0.66
	Not Very Satisfied				0.578	0.846			0.989	0.599
	Not At All Satisfied				0.763	1.353			1.582	0.789
Life Satisfaction	Very Satisfied				Ref*	Ref***			Ref***	Ref
	Satisfied				0.977	1.162			0.976	0.9
	Not Very Satisfied				1.173	1.932***			1.390**	0.975
	Not At All Satisfied				1.524	2.802***			1.937***	1.249
Control Variables										
Gender	Male		1.126*	1.194*	1.166*	1.054	1.197*	1.143**	1.099	1.187*
Age	15-24		Ref	Ref	Ref	Ref	Ref	Ref*	Ref	Ref
	25-39		1.208	1.043	1.055	1.105	1.063	1.173	1.132	1.051
	40-54		1.125	0.957	0.942	0.996	0.907	1.056	1.1012	0.901
	55+		1.026	0.899	1.01	1.086	0.868	0.953	1.04	0.935
Occupation	Self-Employed		Ref***	Ref***	Ref	Ref	Ref***	Ref***	Ref**	Ref
	Managers		0.746*	0.799	0.868	0.876	0.809	0.747**	0.85	0.85
	Other White Collar		1.062	1.1016	1.038	1.101	0.964	1.019	1.078	0.983
	Manual Labour		1.526***	1.357*	1.232	1.263**	1.288*	1.319**	1.195	1.197
	Other		1.688***	1.336**	1.1015	1.230**	1.312*	1.559***	1.217*	1.087
Education	Up to 15 years		Ref***	Ref***	Ref*	Ref***	Ref***	Ref***	Ref***	Ref*
	16-18 years		0.592***	0.730***	0.814*	0.728***	0.750***	0.644***	0.741***	0.812*
	19 years		0.415***	0.664**	0.686*	0.709***	0.635**	0.591***	0.688***	0.654**
	Still Studying		0.521***	0.737	0.827	0.591***	0.596*	0.467***	0.646*	0.811
GDP				0.922***	0.935**	0.915***	0.949*	0.933***	0.952*	0.953
Unemployment				1.075**	1.099***	1.092***	1.101***	1.144***	1.136***	1.121***
Domestic Trust	Do Not Trust			15.630***	14.646***		14.198***			13.547***
Domestic Democracy Satisfaction	Very Satisfied			Ref***	Ref***		Ref***			Ref***
	Satisfied			0.561***	0.596**		0.565***			0.582**
	Not Very Satisfied			0.285***	0.319***		0.282***			0.316***
	Not At All Satisfied			0.212***	0.231***		0.223***			0.234***
European Democracy	Very Satisfied			Ref***	Ref***		Ref***			Ref***
	Satisfied			0.903	0.93		0.912			0.924
	Not Very Satisfied			6.844***	6.197***		6.504***			5.960***
	Not At All Satisfied			33.243***	23.605***		28.172***			22.447***
Nagelkerke R Square			0.057	0.49	0.517	0.219	0.513	0.198	0.272	0.529

Table 18:

Logisitic Regression - Domestic Trust, All Years										
		Model 1	Model 2	Model 3	Model 4a	Model 4b	Model 5a	Model 5b	Model 6	Model 7
		Exp(B)								
Constant		4.081***	4.317***	0.615	0.127***	0.233***	0.121***	0.387***	0.137***	0.087***
Individual-level variables										
Country Employment Expectation	Better						Ref***	Ref***	Ref***	Ref**
	Worse						1.827***	2.393***	2.129***	1.526**
	Same						1.449***	1.861***	1.883***	1.519**
Personal Job Expectation	Better						Ref	Ref***	Ref	Ref
	Worse						0.904	0.979	1	0.498
	Same						1.105	1.112	1.109	0.856
Economic Expectation	Better						Ref***	Ref***	Ref***	Ref
	Worse						1.482***	2.196***	1.677***	1.350*
	Same						1.157	1.500***	1.436***	1.264
Financial Expectation	Better						Ref	Ref*	Ref***	Ref***
	Worse						1	1.027	0.813	0.842
	Same						0.889	0.894	0.700***	0.621***
Life Expectation	Better						Ref	Ref	Ref	Ref**
	Worse						0.94	0.903	1.187	1.277
	Same						1.114	1.036	1.220*	1.537***
Country Employment Situation	Very Satisfied				Ref***	Ref***			Ref***	Ref***
	Satisfied				1.853	1.176			1.287	1.861
	Not Very Satisfied				2.197*	1.700**			1.845**	2.294*
	Not At All Satisfied				3.264***	2.487***			2.669***	3.411***
Personal Job Situation	Very Satisfied				Ref	Ref***			Ref	Ref
	Satisfied				1.16	1.235			1.144	1.143
	Not Very Satisfied				1.236	1.524***			1.264	1.131
	Not At All Satisfied				1.023	1.472*			1.482*	0.96
Financial Situation	Very Satisfied				Ref	Ref***			Ref	Ref
	Satisfied				0.992	1.198			1.128	0.935
	Not Very Satisfied				0.947	1.515**			1.329	0.84
	Not At All Satisfied				1.399	1.845**			1.652*	1.193
Economic Situation	Very Satisfied				Ref***	Ref***			Ref***	Ref***
	Satisfied				1.085	1.048			1.128	1.127
	Not Very Satisfied				1.63	1.83**			1.985***	1.663
	Not At All Satisfied				2.273*	3.820***			3.912***	2.229*
Life Satisfaction	Very Satisfied				Ref***	Ref***			Ref***	Ref***
	Satisfied				1.418*	1.491***			1.357***	1.323*
	Not Very Satisfied				2.338***	2.444***			2.005***	2.041***
	Not At All Satisfied				1.732*	2.743***			2.094***	1.513
Control Variables										
Gender	Male		0.944	0.872	0.876	0.911	0.961	1.011	0.917	0.883
Age	15-24		Ref**	Ref	Ref	Ref*	Ref*	Ref***	Ref*	Ref
	25-39		1.12	0.949	0.857	0.871	1.044	0.879	0.875	0.857
	40-54		1.055	0.968	0.858	0.855	1.099	0.858	0.871	0.822
	55+		0.81	0.788	0.741	0.755*	0.864	0.720***	0.720**	0.683*
Occupation	Self-Employed		Ref***	Ref	Ref	Ref	Ref	Ref**	Ref	Ref
	Managers		0.95	1.107	1.235	1.038	1.005	0.925	1.068	1.196
	Other White Collar		1.147	1.077	1.135	1.167	0.881	0.954	1.147	1.098
	Manual Labour		1.416**	1.107	1.077	1.243	0.88	1.141*	1.217*	1.035
	Other		1.652***	1.178	1.093	1.149	0.966	1.146*	1.131	1.097
Education	Up to 15 years		Ref***	Ref	Ref	Ref***	Ref	Ref***	Ref***	Ref
	16-18 years		0.574***	0.821*	0.898	0.707***	0.928	0.700***	0.73***	0.921
	19 years		0.446***	1.001	1.147	0.755***	0.997	0.700***	0.75***	1.122
	Still Studying		0.428***	0.600*	0.656	0.598***	1.036	0.538***	0.605**	0.689
GDP				1.027	1.028	1.004	0.994	0.961***	1.009	1.034
Unemployment				0.973	0.961	1.074***	1.070***	1.172***	1.074***	0.982
European Trust	Do Not Trust			13.576***	12.695***		11.071***			11.808
Domestic Democracy Satisfaction	Very Satisfied			Ref***	Ref***		Ref***			Ref***
	Satisfied			1.469**	1.427*		1.592***			1.424*
	Not Very Satisfied			5.345***	4.383***		5.376***			4.370***
	Not At All Satisfied			14.398***	9.712***		14.723***			10.192***
European Democracy	Very Satisfied			Ref	Ref		Ref***			Ref
	Satisfied			1.281	1.196		1.263*			1.172
	Not Very Satisfied			1.138	1.03		1.055			0.979
	Not At All Satisfied			0.825	0.735		0.697			0.683
Nagelkerke R Square			0.039	0.43	0.461	0.198	0.445	0.145	0.245	0.473

Table 19:

Logisitic Regression - Domestic Trust, Crisis										
		Model 1	Model 2	Model 3	Model 4a	Model 4b	Model 5a	Model 5b	Model 6	Model 7
		Exp(B)								
Constant		4.421***	4.164***	0.799	0.066***	0.201***	0.336*	0.654	0.083***	0.039***
Individual-level variables										
Country Employment Expectation	Better						Ref**	Ref***	Ref***	Ref
	Worse						1.622***	2.744***	2.105***	1.336
	Same						1.465**	2.294***	1.975***	1.419*
Personal Job Expectation	Better						Ref	Ref	Ref	Ref
	Worse						0.807	1.008	1.053	0.911
	Same						1.106	0.991	0.947	0.994
Economic Expectation	Better						Ref**	Ref***	Ref***	Ref**
	Worse						1.633***	2.020***	1.913***	1.689***
	Same						1.404*	1.678***	1.632***	1.452*
Financial Expectation	Better						Ref**	Ref***	Ref**	Ref**
	Worse						0.85	0.838	0.756*	0.813
	Same						0.696*	0.693***	0.700***	0.628**
Life Expectation	Better						Ref**	Ref***	Ref*	Ref*
	Worse						1.192	1.073	1.166	1.273
	Same						1.493**	1.368***	1.285**	1.467**
Country Employment Situation	Very Satisfied				Ref***	Ref***			Ref***	Ref***
	Satisfied				2.771**	1.559			1.703*	2.849**
	Not Very Satisfied				3.143**	2.162***			2.342***	3.412***
	Not At All Satisfied				4.733***	2.940***			3.160***	5.150***
Personal Job Situation	Very Satisfied				Ref	Ref**			Ref	Ref
	Satisfied				1.309	1.267			1.232	1.317
	Not Very Satisfied				1.418	1.612**			1.370*	1.321
	Not At All Satisfied				1.169	1.45			1.458	1.121
Financial Situation	Very Satisfied				Ref	Ref***			Ref	Ref
	Satisfied				0.921	1.188			1.086	0.836
	Not Very Satisfied				0.926	1.490*			1.291	0.778
	Not At All Satisfied				1.479	2.383***			1.922*	1.192
Economic Situation	Very Satisfied				Ref***	Ref***			Ref***	Ref**
	Satisfied				1.316	1.046			1.189	1.42
	Not Very Satisfied				1.82	1.941**			2.200***	1.921
	Not At All Satisfied				2.530**	4.112***			2.125***	2.585**
Life Satisfaction	Very Satisfied				Ref***	Ref***			Ref***	Ref**
	Satisfied				1.469**	1.517***			1.319**	1.361*
	Not Very Satisfied				2.277***	2.743***			2.040***	1.948***
	Not At All Satisfied				1.56	2.910***			2.125***	1.329
Control Variables										
Gender	Male		0.976	0.889	0.879	0.912	0.901	0.956	0.916	0.895
Age	15-24		Ref**	Ref	Ref	Ref***	Ref**	Ref***	Ref***	Ref*
	25-39		1.142	0.937	0.846	0.592	0.925	1.007	0.949	0.849
	40-54		1.057	0.922	0.821	0.269	0.869	0.922	0.899	0.794
	55+		0.802	0.719	0.681*	0.714*	0.633**	0.641***	0.693**	0.632*
Occupation	Self-Employed		Ref***	Ref	Ref	Ref*	Ref	Ref***	Ref	Ref
	Managers		0.874	1.088	1.254	1.107	1.048	0.974	1.138	1.216
	Other White Collar		1.152	1.072	1.117	1.191	0.995	1.079	1.182	1.079
	Manual Labour		1.557***	1.192	1.142	1.319**	1.08	1.371**	1.262*	1.081
	Other		1.811***	1.287*	1.164	1.314***	1.256	1.582***	1.300**	1.17
Education	Up to 15 years		Ref***	Ref	Ref	Ref***	Ref	Ref***	Ref***	Ref
	16-18 years		0.594***	0.818*	0.865	0.706***	0.86	0.659***	0.716***	0.881
	19 years		0.446***	0.837	0.949	0.731***	0.835	0.589***	0.708***	0.899
	Still Studying		0.671	0.767	0.829	0.659*	0.788	0.517***	0.728	0.888
GDP				1.023	1.064*	0.985	1.058*	0.975	1.028	1.088**
Unemployment				0.962	0.98	1.050*	1.018	1.104***	1.077***	1.011
EU Trust	Do Not Trust			15.011***	14.101***		13.676***			13.102***
Domestic Democracy Satisfaction	Very Satisfied			Ref***	Ref***		Ref***			Ref***
	Satisfied			1.449*	1.420*		1.304			1.397*
	Not Very Satisfied			4.857***	4.154***		4.403***			4.107***
	Not At All Satisfied			12.561***	8.955***		11.596***			9.308***
European Democracy	Very Satisfied			Ref	Ref		Ref			Ref
	Satisfied			1.123	1.073		1.062			1.027
	Not Very Satisfied			1.046	0.963		0.911			0.888
	Not At All Satisfied			0.746	0.652		0.641			0.6
Nagelkerke R Square			0.04	0.436	0.467	0.201	0.455	0.149	0.254	0.48

To reiterate, the tables display odd ratios to facilitate the interpretation. Odds ratios are exponentiated coefficients that display the likelihood one will distrust the EU. Proceeding through hierarchal modelling, each model introduces new levels to the analysis. Model 1 presents the constant, before model 2 introduces sociodemographic variables and model 3 the controls of democracy and domestic or European trust. Models 4 and 5 separate the individual-level variables for current-level and future-level socioeconomic perceptions, before combining in models 6 and 7 with and without the controls of democracy and trust.

For EU trust models, the basic observations indicate firstly that socio-demographic indicators are relatively insignificant. Education is the most significant of predictors, while in a number of models, manual labour and 'other' (that includes unemployed) are significant. Secondly, the perception of European democracy as well as trust in domestic institutions remain highly significant predictors of EU trust. Across all models, an individual is over 20 times more likely not to trust the EU if one feels unsatisfied with EU democracy.

In separating individual current-level and future-level perceptions it is clear the current situation is slightly more influential in determining EU trust. This is confirmed by the slightly higher R-Square of Model 4 over Model 5, as well as the higher significance of current-level variables in Model 6. Although, in Model 7 country employment expectations are by far the most significant predictor, for current-level indicators personal job and financial situation perception evoke the most consistently significant and largest response.

The findings reflect that labour market considerations demonstrate the most significant findings and most influential log-odds, which is perhaps consistent with H4. In particular, country employment expectations are highly significant across all models, while personal job current-level and expectations are similarly significant. This observation becomes even more prevalent when consolidating to crisis years, whereby country employment expectations in particularly are substantially intensified. Supporting this inference is the prominence of unemployed and manual workers, as well as the unemployment rate, all being significant variables.

On the other hand, the models against domestic trust reveal a wider consistency of individual predictors. The emphasis of labour market reform in Italy is well-known, perhaps best characterized by the recent Renzi Jobs Act, which is reflected through country-level employment current situation being a highly significant predictor of domestic trust, a variable that is intensified dramatically when considering crisis years alone; although, country employment expectations became a less significant predictor during the crisis than across all years. Equally, economic expectations became a prominent variable during the crisis, whereby across all years this was far less significant. As would be expected, life satisfaction remains a significant predictor of domestic trust, although the financial situation and expectations are not particularly significant. Finally, of socio-demographic indicators, being young or old are often significant predictors – relating to pensions and youth unemployment potentially; while domestic democratic satisfaction is a significant predictor, although nowhere near as influential as European trust.

The comparison between national trust and EU trust highlights a number of intriguing findings. Perhaps the most obvious is the clear significance of current-level country employment as the most significant predictor: in model 7, it is highly significant across all categories as well as reflecting a log-odds of 5.150 for those whom are not at all satisfied with the situation. However, in spite of this significance, personal job current-level and expectations, as well as country-level expectations, are less significant than in the EU models. Similarly, the unemployment rate is not a significant predictor of domestic trust across the majority of models, particularly Model 7, but remains highly significant across all models of

EU trust. Considering model 6, which removes democratic controls, it is clear that both domestic trust and EU trust share a number of influential predictors, however, current financial situation and personal job situation are far more significant with respect to EU trust. The fact that domestic democratic satisfaction is nearly half as influential as European democratic satisfaction could infer the fact that people did not feel Europe offers a viable democratic alternative. While finally, the European models offer better prediction than the domestic, consistently reflecting a higher Nagelkerke R Square value across models.

These points illustrate that to some degree, public trust in Italy towards the EU is inherently linked to the labour market reform agenda. The continued significance across all years, which is amplified during the crisis, is indicative of this point. Extensive labour reform began during the mid-1990's and has culminated in 2014 with the Renzi Jobs Act. Labour market reform has been highly contentious in Italy, potential reforms have spurned political violence in the past with the death of Marco Biagi in 2002 for instance. The Jobs Act represented a pivotal step in the broader path of deregulation demanded by the IMF, EU, and banks, a substantial reform that challenged the basic interests within a clientelist system. This continued pressure amid domestic resistance highlights the causation of this trend. The extent of contention over labour market reform is perhaps best reflected by the internal political opposition to Renzi's measures from within his own party. Indeed, Picot and Tassinari (2014) illustrate that external pressures were essential in obtaining the necessary far-reaching reforms in labour markets. This has an inevitable feedback into deteriorating trust levels.

In summary, the logistic regression exemplifies the clear prominence of labour market reform as a potential causation of politicization and may lie at the heart of declining European trust in Italy. Country employment expectations are by far the most significant individual-level predictor of trust, while personal job situation and financial situation, which are inherently related to the former variable, are also identified as important. Domestic trust models display a wider range of significant variables, whilst EU trust is far more linked to labour market. The EU trust models display a slightly greater R-squared value, indicating a better explanatory power but the difference is negligible. What is understood from this, however, is that politicization is definitely recognized as EU trust is inherently linked to domestic socioeconomic developments.

Domestic Interests

4.6 Domestic Interests -Trade Union Positions

Without social concertation on the majority of issues the predominant means for the trade unions to influence policy is through mobilizations. Thus, to consider the position of the social partners a combination of domestic action and explicit statements will be considered as indicators of position.

Assessing the specific positions of the unions, CGIL in particular were vehement about defending social equality. The influential union has employed widespread mobilizations as a key feature of their campaign, forefronting the anti-austerity movement. The emerging trend over the course of the crisis reflects a strong discourse for equality and fairness in policy: a General Strike in 2010 focussed on improving social provisions and tax reform for workers and pensioners, improving equality; 6 May 2011, CGIL held a further General Strike, with the headline 'Unequal rights = Reduced rights for everyone' (CGIL 2011); December 2011 saw the unions unite against austerity, particularly the overly harsh socioeconomic impact disproportionate on workers and pensioners; October 2014, Susanna Camusso declared at a mobilization their work was for 'those without work, without rights, those who suffer, who have no certainties for the future' (CGIL 2014); while in 2015 Camusso promised further mobilizations against the pension system, in order to 'rebuild an element of social justice' *(Ansa 05, October 2015*); indeed, Paraskevopoulou and McKay (2015) note CGIL has made equality in the workplace a priority, while Marino (2011) argues defence of social welfare is a priority of CGIL and labour rights FIOM. An important development derived from this continual pressure was the ratification of ILO Convention C189, whereby Italy became the 9th country in the world to incorporate this measure. This domestic workers convention aimed to formalize domestic work that was previously invisible and undervalued (ILO 2012). This came from significant pressure by the unions, again based on the prescript of equality.

Both UIL and CISL have actively participated with CGIL through the majority of mobilizations. However, a noticeable divide occurred surrounding the recent Jobs Act, with CISL abstaining from the General Strike initiated by CGIL and openly criticizing the other unions for their action. Critics argue that the package favours business lobbies and employers, ignoring workers' rights, yet CISL chief Annamaria Furlan feel striking was not a way of uniting the labour world, particularly noting CISL has never joined another organizations strike, and that Italy needs to face the fact of high unemployment and seek a resolution (Ansa 2014). However, CISL has mobilized extensively, particularly for their direct interests. Notably, in December 2014 whereby they concentrated action in public services, everything from education to health was affected in protest of the non-renewal of public sector contracts. To be sure, the protection of rights and welfare remains a paramount objective for CISL, but its attention is focused far more on the South and more specifically on jobs and taxation. At the same time, one of the key features that aligns CISL with the two other major unions are pensions, considering that nearly half their support base are pensioners, over 2 million out of 4.4 million respectively. For instance, in 2014 Renzi announced the intention to remove the independent pension regulator covip as part of cost saving measures. The unions unified against this development, with CISL arguing it is both 'wrong and dangerous' (CISL 2014).

4.61 Employers' Associations Positions

The employers' associations had more favourable relations with the government during the crisis. Talani (2014) argues that there has been a 'strengthening the institutional power of transnational capitalist elites vis-à-vis organised labour in the shift from the national to the European level of governance' that is preferential to employers' associations given the prominent divides that exist amongst the unions and the disaggregated nature of globalised capitalist structure. In fact, the unions accused the government of specifically 'taking its platform from Confindustria' when creating Renzi's Job Act in 2014. Ultimately, the predominant policy of the association was urging fiscal stimulus backed by labour costs cuts. It argued that the country needed 'shock therapy' to restore growth and create jobs (Confindustria 2013). Accentuating this, in 2013 the association backed plans to cut labour costs in order to promote growth with Giorgio Squinzi, head of Confindustria business association, arguing the proposed cuts in the 2014 budget were 'too timid' to promote growth, and that the government needed 'more courage' (*October 16 2013, Financial Times*). Yet, labour protection too was a priority for Confindustria, illustrated by the conflict with Fiat that resulted in the company leaving the association. Fiat accused Confindustria of limiting progress for more flexible working options that would make it more competitive. Finally, Confindustria urged developments towards the creation of a fiscal and banking union.

4.62 Structural Reform

The Italian state was able to internalize the demands of the EU through a process of 'implicit conditionality' (Sacchi 2015). While it has been observed, this process intensifies public opinion, being an impingement on sovereignty, it was also an expedient to promote reforms and overcome traditional domestic opposition, particularly from the unions (Sacchi 2013a). Further still, the technocratic government under Monti represents an active attempt to depoliticize labour market reform and implement necessary liberalization, undermining any power to veto from the unions (La Repubblica 2012a). Still, it is documented that the unions retained some power: firstly, they were able to prevent the government from terminating the STW scheme (La Repubblica 2012b); while secondly, CGIL, with support from PD, managed to filter down the original proposal (Picot and Tassinari 2017).

Nevertheless, a major victory was realized whereby there was a weakening of protection for workers on open-ended contract, a policy both enshrined in Article 18 and a source of significant contention since it was initially proposed in the early 2000s. It did also, however, act as source of increased dualism as Article 18 does not apply to workers in small firms nor most atypical contracts. The reform also impacted reinstatement procedures, firstly by capping missed wages in cases of reinstatement at 12 months; but also, raising the maximum compensatory contribution in cases of cases not covered by reinstatement. According to Picot and Tassinari (2017), this process constitutes a retrenchment of coordination-facilitating institutions.

Furthermore, the legislation reduced EPL across numerous area for temporary contracts under Law 92/2012 in order to prevent “bad flexibility”: fixed-term contracts were discouraged; tests were introduced to prevent ‘pseudo self-employment;’ measures to hinder the abuse of apprenticeship contracts were introduced; and temporary contracts were re-regulated. At the same time, however, unemployment protection was widened – which was a major development. Sacchi (2013b) notes that the measures introduced in these areas could have reduced the number of uncovered workers by two-thirds. Further, in spite of intending to abolition the STW scheme, it was actually slightly enhanced as new funds that were co-managed by social partners and regional authorities were introduced, as well as an extension of coverage to firms employing more than 15 workers. These changes affirm some of the sceptical literature on such measures since this increased the dualization in the labour market between workers employed by large firms and small firms.

While, the Fornero reform only marginally impacted ALMPs. The major change was to reinstated a principle, already existing in legislation, that prescribed the eligibility of unemployment benefits should be terminated if somebody refuses a job without good reason or offers to participate in ALMP measures. Further reforms and an overhaul of the system was promised but never realised, given the premature end to the government. Ultimately, the Fornero reform undermined coordination by deregulating dismissal protection for standard workers but combined this with substantial developments in coverage, demonstrated by a re-regulation of non-standard employment and the extension of both unemployment and STW benefits. It has been recognized that many elements had been demanded for some time (Berton et al. 2012); but the crisis provided the necessary conditions, willpower, and pressure to enact such substantial change.

Renzi, however, appears to have taken a much larger step towards liberalization with the introduction of the Jobs Act. While adopting a similar position to the Fornero reform, the legislation extends unemployment insurance and assistance, improves public employment services, and even further reduces dismissal protection for workers in open-ended contracts. An analysis of the socio-economic structure in Italy demonstrates the prominence of rising precarious groups and how this may have been a catalyst for such developments. Italy was amongst the highest nations in Europe for precarious work, and the Italian unions utilized their strong bargaining position at a sector and company level, as well as vertical and horizontal logic, to create structures of representation for atypical workers (Pulignano et al.

2016). Such strategies ensures that the atypical sector of the economy became a far more active and politically important factor in policy-decisions. Conceptually, this pattern of reform corresponds to flexibilization, with regards to coordination, and embedding in terms of coverage (Picot and Tassinari 2017).

4.63 Domestic Interests Actions

Distinctions need to be made, however, between these relative positions and the practices and de facto behaviours of the social partners, since this is the greatest importance in understanding what occurs (Regalia and Regini 1998). There is a common complaint about the lack of industrial policy and incoherent path of labour reform between governments. This is particularly important since it undermines the capability of SME's to forecast or invest effectively. Similarly, uncertainty about labour market regulation disincentives hiring. Such dissatisfaction is reflected through the social partners creating their own provisional documents – such as the 2013 'Plan for Jobs. Creating jobs to give Italy future and growth' (Piano del lavoro) prepared by CGIL. Likewise, the social partners have often sought joint-solutions, in the absence of coherent state policy, which has occurred on numerous occasions throughout the crisis, such as the inter-confederal framework in 2013 on trade union representativeness and the validity of collective bargaining (Colombo and Regalia 2015: 313).

This indicates perhaps the most important feature of the Italian crisis period. Both the unions and employers have maintained an integral role to the regulation of labour by displaying a willingness to cooperate. To be sure, the state's modified role and unilateral actions have been important, but not altered the essence of collective bargaining practices. The state's role as a mediator of industrial conflict has decreased, ensuring the social partners have sought autonomous solutions. Further to this, there have been regular common complaints between the partners, centralized on the uncertainty surrounding the economy, and disjointed policies of labour market reform undertaken by the state, which are regularly undermined by successive governments. The unions have taken the situation to attempt to provide innovative solutions; while the employers also are keen to cooperate, despite desiring greater levels of flexibility (Colombo and Regalia 2016: 316).

Further, while not to the same extent as Greece, Italian unions have engaged various other institutional actors and utilized legitimacy and democratically concerns to further their agenda. Repeatedly the unions have contested in courts the legitimacy of wage freezes, explicitly the original public sector freeze imposed by the Berlusconi governments and extended by successive administrations. Yet, in June 2015 Italy's highest court subsided in support of the unions by declaring the wage freeze is illegal and should be removed. In addition, the unions have pushed for supranational aid, particularly CGIL concerning social rights. For instance, in May 2015 CGIL petitioned a complaint to the European Commission concerning breaches of the European Social Charter concerning the violation of acts with regards to voluntary terminations of pregnancy, while the Committee for Human Rights are currently examining claims for violations of human rights in Italy 2015 (Council of Europe 2015). This development is a continuation of the trend, with various other complaints submitted throughout the years for non-compliance of the government. It epitomises the willingness and continuing capability of the unions to act in protection of their self-interest, particularly relating to equality and social welfare.

As illustrated, social justice, welfare, and equality were the defining principles guiding union activity. It was argued that austerity was overly harsh and unnecessarily focussed. Labour market deregulation was leading to further precariousness and impacting certain sectors of society far more than others, with particular concerns over youth unemployment. Generally, the unions interests were largely aligned, centralized on a number of key principles: unemployment, and associated benefits; reduction of taxation for employees, pensioners, and companies; relaunch of countercyclical policies; reorganization of public administration rather than cuts; reducing cost of politics; and aiding research and development (ETUC: 2013). Overriding all these principles were the urgent calls for an end to austerity and to reinstate concertation to include the social partners' views.

These demands are symbolic of the unified position of the partners, furthered by a joint statement in 2013. The statement, reinforced by action in May 2013, made a number of explicit points extending the policy suggestions above, notably to create a tool to combat poverty and those not self-sufficient, as well as extending temporary contracts about to end in public administration. However, in line with the overall theme of domestic pressure, they maintained a call for politics over policy, through greater 'economic and political governance of the European Union and greater involvement of the social partners' (Ibid); as well as reaffirming to the European integration project by rejecting harsh austerity measures that do not consider the social or development impact.

Particularly with the crisis, the evolution of precariousness appears to have empowered the unions. The formal unions incorporated this rising social segment into their institutional framework, providing a point of reference for collective bargaining (De Franceschi et al. 2012), particularly emphasised by wide-reaching agreements for temporary agency workers (TAWs) (Benassi and Durazzi 2014). The crisis unified both unions and employers' interests, emphasised in 2010 when the social partners presented a list of common objectives to the government. With the true extent of socioeconomic implications becoming realized, the overriding emphasis became on increasing the scope of protection and coverage. The social partners demanded an extension and modification of social shock absorbers to those not currently covered and to remove the planned reduction in CIG payments. These were vital characteristics considering the limited social welfare system that existed, with no national system of unemployment benefit, non-existent insurance for atypical workers, and no social assistance benefit – unlike other European states (Molina and Rhodes 2007; Berton et al. 2009; and Sacchi et al. 2011).

This correlates with the policy response in the initial phase of the crisis. The predominant action of the government was through changes in the functioning of short-term work schemes, which with the country's wage compensation scheme (Cassa Integratione de Guadani or CIG) was the pillar of the Berlusconi response. The complex nature of STW's cannot be recounted here, however the key point of note is that social protection interventions raised the cost of challenging the status quo, as each actor had powerful reasons for maintaining the equilibrium notably the unions and employers: employers could utilize low cost labour, while new entrants were could free-ride on contribution schemes; trade unions had their role as institutional brokers amplified, since social protection was now directly provided by tripartite agencies; while government and regions also had particular preferences in the system (Sacchi 2013a: 9). It has been argued that these developments unintentionally strengthened the unions.

This process was vital in order to implement flexibility into the labour market. Preceding the CIG extension, in 2009, a collective bargaining system was signed by CISL and UIL, but abstained by CGIL. These agreements aided firms in restructuring, aimed at restoring productivity and competitiveness. Thus, the extension of CIG was vital in appeasing the unions to enable a restructuring of the labour system with far greater flexibility, noting a dramatic liberal shift in a realization of the 1993 efforts (Pedersini and Coletto 2009; Vatta 2010). As such, while initial flexibility was tolerated by the moderate unions, a combination of declining socioeconomic conditions, increasing precariousness, and potential further deregulation shifted the moderate unions' position more in line with CGIL.

However, particularly concerning is that despite the introduction of flexibility with the purpose of reducing precariousness, there was little to improve the status or protection of young or women. Gros and Maselli (2012), for example, highlight that youth unemployment remained constant despite these measures. This has strong connotations for the unions in that it failed to address the core issues of their malcontent. Further, opinion polls at the time indicated that the Mario Monti's approval ratings fell dramatically following the ineffective handling of talks with the unions, potentially reflective of support for the unions as well as the disapproval of ineffective administration (Cencig 2012: 45).

Nevertheless, 'the union stick was not all that threatening' (Culpepper and Regan 2014: 17) as Monti was able to undertake *Salvia Italia*, founded on contentious pension reform, relatively unappeased. Concertation was removed and replaced by pluralism, leaving the unions with only mobilizations that appeared not to hinder government desire. Yet, without consultation there is a risk of governments making mistakes – which occurred as the government failed to cover those whom took early retirement, given changing thresholds, leaving a revised figure of 390,000 uncovered (Repubblica 2012). This was a damaging error both to the government and their policy tactics.

Following unsuccessful action, the unions extended their demands, looking to aid firms in retraining workers, promoting industrial relations peace, and policy to promote competitiveness. Their influence grew dramatically, epitomised in 2012 when the Monti administration was forced to abandon planned labour market reform to remove part of the CIG system in face of severe pressure. As such, despite being cast aside for much of the reform process, negotiation was utilized by Else Fornero in reforming unemployment benefits

(Fornero 2013; Perez and Rhodes 2014: 206). It is likely this was both due to the previous mistakes of *Salva Italia* as much as it was growing influence of the unions in facing the socioeconomic crisis. Perez and Rhodes (2014) argue that the policy was in accordance with the long-term demands of the unions. While the new system may not be generous and still obtains gaps in coverage, it is still a marked improvement on the old system, and substantially increased the eligibility for right-based unemployment benefits as well as decreasing the number of workers without benefit entitlement from approximately 2 million to 600,000 (Sacchi 2013b).

Indeed, conflict continued throughout, particularly focussed on the controversial Article 18 of the constitution, based on unfounded individual dismissal. The fundamental aim of the Monti administration was to impose flexicurity, improve the protection for atypical workers, and reduce the persistent dualism of the labour market. A major strike was held in March 2012 by CGIL, emphasising the lack of democracy of the policy as well as being particularly critical over the impingement of worker rights. Despite an approved disputed draft, pressure from the unions forced the government to democratically shape the legislation. Cencig (2012: 42) stresses that the persistent conflict and refusal by workers to reform Article 18 demonstrates a complete failure of the *concertazione* effort; although the reform was heralded as a victory by Council of Ministers, European Commissioner for Employment, Social Affairs and Inclusion László Andor as well as OECD Secretary-General Angel Gurría.

'European and international institutions supported the government's efforts towards reforms' Elsa Fornero reflected in retrospect (Fornero 2013). Law 92 (2012) is symbolic of this, with both the unions and employers left unsatisfied by its contents, which did not change protection against discriminatory dismissals and instead changed the rules on economic and disciplinary dismissals found by a judge to be unfair (Perez and Rhodes 2014: 208).

Nevertheless, despite external pressures toward liberalization of the labour markets, the unions pertained significant influence over the reform process – especially CGIL (Picot and Tassinari 2014: 23). Sacchi (2013a; 2013b) argues that the centre-left Democratic Party was crucial to Monti's majority and heavily aligned with CGIL, granting the union extended influence. Equally, in line with declining public sentiment the unions gained additional power in society, particularly as Culpepper (2014) notes, as the fiscal cuts imposed by the government began to have significant effects in the domestic arena, which amplified union presence.

There are, however, indications that the recent administration of Renzi may have learnt from the mistakes of the past in confronting the unions. Renzi's initial policy agenda marks a distinctive shift from the traditional austerity mantra, initiating demand-led measures through tax cuts. The move was widely heralded as a turning point, with CGIL leader Camusso stating 'I see that the Prime Minister has listened to us.' Basic income support has been at the centre of union policy, particularly since the outbreak of the crisis, as promoters of social justice the unions believe income protection is essential as part of Decent Work Agenda promoted by the ILO. The policy is symbolic of a recognition of union demands and the most welcome package throughout the crisis (Guiso, 2014).

This same amicability is not present when concerning the labour market, as the EU persists with mounting pressure for continued deregulation. Perhaps most notably has been the widespread disruption by both CGIL and UIL against Renzi's Job Act, arguing that it is "Cosi non va" (so wrong). The main challenge of the unions remains on Article 18, in spite of CISL and UIL accepting an abolition of the Article on the grounds that there are significant concessions through a reduction and simplifications of employment contracts available and the end of illegal contract (Favasuli 2014). Nevertheless, despite the rhetoric of providing coverage to precarious workers, CGIL criticized the package as making everybody worse off. The package generally follows in a similar vein to the Fornero reform, and should be noted leaves significant scope for implementation (Picot and Tassinari 2014: 22). The core of the reform, however, steers clear of outright liberalization and progresses that of the Fonero reform in embedding flexibilization by further cutting coordination and extending coverage.

Although the measure has been passed, there remains serious questions over its purpose and effectiveness. It is strange that there has been constant pressure for deregulation, on the understanding that Italian markets are “rigid,” given that the impact of Article 18 even prior to the Jobs Act was marginal at best (Rutherford and Frangi 2016: 12) Further, the prevalence of small firms in the Italian economy ensures the structure is more akin to liberalist economies: given that firstly, Article 18 did not truly apply to such firms; and secondly, that these firms often collapse leading to large labour turnover. At the same time, the impact on large firms of Article 18 was also perceived as insignificant, given that most employment disputes were resolved prior to going to court.

Therefore, the motivation for its abolition has been recognized as “symbolic” and “ideologically driven (Ibid: 11). The continued neoliberal exogenous pressure both increased the vulnerability of domestic institutions to change, as well as empowering the state to impose its will on the domestic environment. Equally, social implications were also important, given that solidarity has been challenged by recent liberalization. Deep divisions within the Italian labour market by growing precariousness for outsiders against strong protection for insider’s acts as a limitation for solidarity, but increasing flexibility can exacerbate such conditions, thus worsening duality (Hermann 2014). The measure even challenges insider solidarity by dividing those hired before and after the reform as they have varying levels of protection. Such conditions further strain the potential of the unions to pose an effective challenge to policy.

4.64 Policy Analysis

Table 20: Italian Reforms

Date	**Law**	**Overview**
2011	*DL 148/2011*	Decentralization collective bargaining
-		
2012	*L 92/2012*	Deregulation dismissal protection
-		Reregulation of non-standard employment
-		Broader coverage of unemployment and short-time work benefits
-		Modest commitment to ALMPs
-		
2014	*DL 34/2014*	Deregulation temporary employment
	L 183/2014	Longer durations and higher coverage of unemployment benefits
		Modernization public employment services
		Incentivization open-ended contracts
		Deregulation dismissal protection

When considering labour market reform, it is often theorized that pressure for reform often means liberalization takes a homogenous form, yet as discussed this paper looks to evaluate the path of reform in accordance with the preferences of domestic politics. In doing so, the research utilizes the perspective of Varieties of Liberalization that accounts for these domestic influences and looks to exceptions in the literature from Thelen (2014); Hall (2014); Picot and Tassinari (2014); Picot and Tassinari (2017) and van Kersbergen et al. (2014) in distinguishing the relative impact.

Picot and Tassinari (2014) argue that an exogenous shock, coupled with European pressure, as well as the identified limitations of the labour market in dualized systems, should trigger policy learning. It should represent the ideal opportunity to overcome failing policies and path-dependence, while also increasing the receptiveness of governments to expert policy opinion (Hall 1993; Hemerijck 2013). Consequently, there are two potential options: either, the government can effectively utilize social concertation to adopt social pacts in a compromise; or, there must be unilateral action to break institutional inertia (Ferrera and Gualmini 2004; Rhodes 2012).

‘*The deep practice of concertation in the past caused the evils against which we are fighting today, and on the basis of which our children and grandchildren do not easily find work. [Unions and employers] should not be actors to which public authorities outsource their political responsibility.*’ Mario Monti, July 2012

The predominant discourse and perception that social partners are an inherent problem did in fact internalize within Italy, particularly prevalent under the Monti administration. Sacchi (2013) argues that the government actively attempted to tame the unions, in order to promote its standing with the international financial markets. Indeed, views from the left described Monti has a European “henchman” whom was undemocratically imposed to “force” austerity (*the Socialist, November, 2011)*. The negative perception of supranational institutions towards these domestic coalitions was shared by the government, presenting the unions as merely focussed on ‘protecting their positional rents, acquired through collusive decisional processes, and, acting as distributional coalitions, they increase the country’s regulatory complexity and contribute to reducing its economic growth’ (Sacchi 2013: 30-31; Olson 1982), whilst this feature has been relatively constant over the course of Italian history in the EMU, it was certainly threatened by the crisis and is when such distributional conflicts come to the fore.

Monti came into power with a mandate for social and labour reform, with the purpose of promoting competitiveness (Pasquino and Valbruzzi 2012). This mandate was largely derived from the unfulfilled promises of the Berlusconi government, which failed to satisfy the calls for reforms to the collective wage bargaining system, a revision of the regulation for hiring and dismissals, and that there should be the 'establishment of an unemployment insurance system and a set of active labour market policies capable of easing the reallocation of resources towards more competitive firms and sector reform' (Trichet and Draghi 2011). In other words, explicit demands for increased labour market flexibility.

This external pressure was utilized by domestic policy-makers as a catalyst to implement reforms in areas previously restricted by strong opposition by the unions (Sacchi 2013). In fact, the Berlusconi government utilized this impetus to pass an emergency austerity budget, which included relatively significant collective bargaining reform that enabled company agreements to diverge from both sectoral agreements as well as employment legislation on dismissals (Picot and Tassinari 2014: 18). This decentralization was not only importance in its representation of external pressure, but also in further dismantling union power by allowing plant-level representatives to deviate from organizational directive. The Italian government committed to labour market reform in accordance with the supranational pressure and demands. The Italian National Reform Programme committed to undertaking necessary reforms, in order to promote 'greater readiness to take on employees and the efficiency requirements of business by means of, among other things, new rules governing dismissals for economic reasons in permanent employment contracts' (Financial Times 2011).

It may not have been direct conditionality, however, accompanying the request was the incentive that if Italy agreed reform measures then the ECB would aid in alleviating market pressure by buying Italian bonds on the secondary market (Jones 2012; Meardi 2012; Sacchi 2013). This was seen as an impingement of domestic political sovereignty, but a necessity as the pressure of European institutions became a catalyst to implement necessary reforms in areas heavily contested by vehement opposition (Picot and Tassinari 2014: 17-18; Meardi 2012; Sacchi 2013a): although many important reforms had been enacted, it was argued that Italy was still a laggard with regards to reforms (Tilford 2006); while, it was clear that the Berlusconi administration continually failed to undertake necessary reforms, partly due to union pressure, with the notable feature of unemployment compensation remaining unchanged in the early stages – predominantly due to the fact that a strong coalition emerged, with firms and unions at the heart, which all had a stake in maintaining the distributional equilibrium (Saachi 2013: 21). Thus, it is argued that Berlusconi even urged for EU intervention as an external constraint to finally implement such reforms that successive governments had tried, and failed, to implement since early 2000's. Beyond this, as noted by Sacchi (2013; 2014), supranational institutions – predominantly the EU and ECB – continued to monitor Italy closely as it undertook necessary labour market reform, which remains the most direct means of European intervention in domestic politics. This implicit conditionality is derived from a power asymmetry centralized around the ECB (Sacchi 2014).

Best characterizing this process was the imposition of the aforementioned technocratic government – deliberately implemented as a means of depoliticizing "sensitive" labour market reform to smooth the process (Bozkurt 2013). The key feature of this period was the utilization of unmediated democracy, whereby the government breaks traditional social paths to legitimization of reform, justifying this through referring to external or economic constraints, rather than utilizing party apparatus to develop social support for measures (Karremans 2014). In a similar vein, there is no reliance on social support from prominent interest groups, thus the government should be able to pursue its own objectives, but equally deprives the government to share responsibility for unpopular policy in times of austerity

(Culpepper 2014: 7). Unmediated democracy was seen as a necessity to overcome powerful interest group conflicts in society and enabled the government to implement essential 'bitter medicine,' however, long-term structural reform requires societal support in order to be successful (Ibid: 1).

This process provided the state with sufficient power to undertake even more drastic measures. The Fornero reform signalled the most ambitious package, consisting of measures that aimed to revolutionize the institutional framework of the Italian labour market by reducing labour market segmentation, promoting employment opportunities, and correcting rigidities of EPL. While the original intention was to have social concertation, there was a lack of agreement on a common position amongst the partners that forced the governments hand and consequentially concluded the unions would have no power in opposing any measures (*La Repubblica* 2012).

In essence, the measures were a realization of the earlier attempts at reform. Article 18 was slightly amended, in spite of severe opposition to protect the status quo, but this represented a significant challenge to domestic politics given the unprecedented attack on market insiders. At the same time, LMP was also drastically reduced as the measures attempted to rebalance protections between permanent and fixed-term contracts – noting a distinctive shift towards recalibration (Picot and Tassinari 2014: 21).

On the other hand, both the changes to unemployment benefits and reform of collective bargaining were highly significant. Unemployment benefits have been long recognized as a prominent concern for the labour market, with measures taken seen as distributive recalibration through the extension of unemployment benefits to outsiders. Indeed, the changes to ASPI merely changed existing functions and instruments as opposed to altering the underlying paradigm, again consistent with recalibration. However, collective bargaining took a definitively more far-reaching approach, representing liberalization. Therefore, in spite of such changes persistent dualism still existed following the 2012 reforms, with the main intention – perhaps reflecting capability – to rebalance the existing system as opposed to radically liberalizing the market.

Yet, in 2014 the most significant reform occurred under the Renzi administration, the Jobs Act. The package follows the same path as that previously implemented by Fornero, extending unemployment benefit, improving public employment services, and further reducing dismissal protection. Indeed, this latter point is the most contentious considering the Jobs Act essentially abolished Article 18 of the Workers Statute.

It cannot be denied that the Jobs Act came as the culmination of significant exogenous pressure for Italy to continue deregulating and liberalizing the labour market (Rutherford and Frangi 2016). Yet, the Jobs Act was far more significant insomuch that it represented a definitive shift away from the paradigm of policy-making in the 1990's and 2000's, which included the unions either through bargaining or consultation. Instead, the Jobs Act symbolized the renewed impetus of the state and its active decision to codify a profound alteration to the EPL, whereby 'the overturning of Article 18 represented instead an action by the state which was not only 'impermeable' to union pressures, but deliberately attacked one of the most important symbols of the postwar Italian union movement' (Ibid: 14).

The abolition of Article 18, therefore, may be the ideal example of the new autonomous role of the state in Italy. It represents the fact that the state remains a critical institution for the mediation of both exogenous and endogenous pressure in making policy-decisions. It is true that the state remains constrained by economic and political internationalization, but still retains key resources, powers, and manoeuvrability for the mediation of such pressures (Harvey 2005; Howell 2006). Exemplify in such facets has been the capability of the state to generate authoritative narrative, but also the capability to act unilaterally in the promotion and enforcement of regulation. Exogenous pressure has been utilized strategically to sustain political choices, while endogenous pressure has been utilized in order to obtain leverage over the unions (Rutherford and Frangi 2016: 13). It is, therefore, far more than just symbolic, but a clear indication by Renzi of the new role played by the state in industrial relations and the long-term reconstruction of the fundamental values in employment relations.

Despite this circumstance, there are promising signs of the unions in adapting to the new challenges of the crisis. The unions have been successful in increasing inclusivity, overcoming fragmentation between old and new jobs, or typical and atypical workers. There have been formalized company and territorial agreements that extend union rights to freelance and precarious workers in the workplace, also defining rules for the transformation of fixed-term contracts into indefinite contracts, and introducing fair employment contracts. Indeed, even at a sectoral level, or local and corporate welfare, inclusivity has improved as there has been an increase in regulation for freelance work coordinated by the employer (Garofalo 2016; Voza 2016). Finally, in line with the Jobs Act impact on workers' rights, such as the reinstatement of unfair dismissal, so there has been an improvement in protection standards by meliorative agreements, equivalent to those removed (Garguilo 2016).

Thus, given these developments, evidence indicates that labour market flexibility has resulted in means of embedding flexibilization, through a promotion of flexibilization in terms of coordination; and embedding in terms of coverage, yet dualisms still persisted (Picot and Tassanari 2014: 25; Picot and Tassanari 2017: 477). Reconstructions of the negotiation process enabled the unions to retain insider-influence in the policy process, a crucial characteristic since their links to the centre-left Democratic Party (PD) were essential for Monti's parliamentary majority, while Monti clearly acknowledged the fact that PD pressed for the dilution of labour market flexibility reforms, given their close links to the unions (Sacchi 2013a; Sacchi 2013b; De Geus et al. 2016). This presents a convergence of position, whereby the formal union resistance to labour market reform is compounded by public opposition and thus considerably raises the stakes of implementation. It shows that the unions did have the capability to influence policy decisions to a certain extent. Given this process, some have argued that due to these influences, there has been a continuation of dualization in Italy (Bentolila et al. 2012; Dubin 2012). Dualization persists as structural reforms have been targeted on "outsiders" (i.e. non-standard workers and the unemployed), again which should leave protection for insiders relatively stable. There is certain evidence to support this, for instance when the Monti administration weakened protection for workers on open-ended contracts, the legislation did not affect workers in small firms nor most atypical contracts. The heart of this approach stresses that left parties and the unions formalized an effective veto block and shifts the costs of structural reform to outsiders (Rueda 2012). On the contrary, the Jobs Act

Utilizing the perspective of Amable and Palombarini (2014) it is argued that the reforms could have been an active attempt of PD to consolidate a new social base, rather than merely being a necessary adaptation in the modern EMU. By decreasing EPL for insiders, and systematically increasing coverage for outsiders, it is possible that the strategy is aiming to acquire support from a class that prefers a redistributive welfare state but not traditional protectionist policy (Hausermann et al. 2015). This new group has also displayed impressive mobilization action that are not affiliated to big trade union confederations, such as the May Day Parade; the Intelligence Precaria; Chain Workers; Serpica Naro, all representing protest and political resistance initiatives based on informal networks (Kretsos 2013). Thus, as noted in the framework there appears to be sufficient interests embedded that will resist dualization pressures and seek to embed flexibilization. The failure of the Left or the Right to effectively solve the crisis had generated significant social uprisings and a political crisis, while the neoliberal rupture of Berlusconi failed because it did not account for the precarious classes. The emergence of a *bloc bourgeois* necessitates change in the political space to one that accounts for a compromise between their interests, despite operating as a minority within society (Amable and Palombarini 2014: 212).

The importance of domestic politics draws the state away from deregulation towards a process of embedding flexibilization. While it is argued that these countries need neoliberal structural reform, the political cost of implementation is too high (Amable and Palombarini 2014: 177). Indeed, two telling quotes highlight this exact issue: '[sweeping deregulation] would not have been viable politically, given the opposition by at least one of the trade unions (CGIL, the most representative one) and by the party closest to it (the Democratic Party).' (Fornero 2013). Equally, Monti complained of 'big political problems in public opinion if these beneficial responses do not materialize… [I]f… you do the right policies but you don't get the recognition, there may be a backlash against the right policies and the coming up of political forces that, of course, oppose the right policies.' The truth in these statements note the need to find an alternate social base that provides support and political stability to implement necessary change. It is readily acknowledged that the unions have held an unhealthy political power in Italian history, which triggered a process of decentralization to limit this; whilst, liberalization and increasing flexibility, by nature, favour decentralized decision-making processes, limiting the role of the unions. Thus, following a failure of depoliticization, it was the only solution remaining as a continuation of economic decline to appease patronage links combined with a growing sector of "outsiders" that were becoming more active was not politically sustainable.

At the same time, Mario Monti points out that the protection of workers in particular has been a key contentious topic in Italian political economy for decades. It was, therefore, essential that reform packages provided some degree of protection as a compromise for increasing flexibility (De Geus et al. 2016: 180). It also aided the success of the reforms that in recent years the unions have begun to change their stance on the labour market following accession to EMU, realising the potential benefits of liberalization so there has been piecemeal change to the labour market. The conclusion drawn from this indicates that there was the necessary environment to finally enact change, but the power of key domestic political actors – in the unions and public opinion – generated sufficient opposition to limit the overall scope of these reforms, in light of the demands and pressure of the EU. However, they did not have the power to prevent reform, only refocus it to a certain degree, thus where policy mattered most the evidence shows that it has been the employers that display the greatest influence.

4.65 Domestic Interests - An Empirical Analysis

The clear inference from these developments is that the crisis provided substantial power to the state that enabled it to overcome historically powerful domestic considerations. A prominent explanation is centred on the balance of powerful exogenous pressures against the weaker endogenous interests (Rutherford and Frangi 2016; Culpepper and Regan 2014: 19). A ‘valorization imperative’ has overtaken economic discourse in Europe, emphasizing the need to reduce labour costs in order to realize profits and become competitive (Vidal and Peck 2012: 606) – in practical terms, reducing the EPL (Baccaro and Howell 2011). Weller (2007) argues EPL reform has far less autonomy than other policy spheres, thus states are encouraged to “roll back” EPL and begin promoting neoliberal policy (Peck and Theodore 2010).

This process is clearly observable across Europe, and in particular in Italy, from the 1990's onwards. Supranational pressure from international institutions, in particular OECD and IMF, has promoted the adoption of neoliberal policy, attempting to narrow the differences in labour market differences between capitalist economies (Baccaro and Howell 2011; Culpepper and Regan 2014; Meardi 2012a, 2012b). For instance, a recent analysis by IMF and OECD stresses a link between poor economic performance and remaining barriers to employment flexibility, particularly for full-time and permanent workers (Baccaro and Howell 2011; Culpepper and Regan 2014; Meardi 2012a, 2012b). The suggestion of the IMF was to provide reform that would enable the state to lay-off workers for economic reasons, in essence abolishing Article 18, that should attract foreign investment, while also promoting employment and productivity (IMF 2012: 16); while in reality, it only increased the irregular labour market (Talani 2017).

At the same time, these growing external pressures – particularly intensified since the crisis – were not matched by endogenous resistance of any significance in terms of political leverage. One of the distinctive features of the Italian system is internal fragmentation (or *corpi intermedi*), limiting the pressure on the state. For unions, these are marked by political-ideological differences – particularly in the cases of CGIL and CISL. While traditionally this has been an avenue to impose pressure on the state, since the 1980's the unions have been firmly divided and declining (Carrieri 2003, 2010; Regalia 2012; Regini and Colombo 2009). While in previous decades the unions presented a united front against reform, the concertation was much more divided and thus severely limited the strength of union power (Simoni 2010; Culpepper and Regan 2014).

The power of supranational actors and the national government has been dramatically increased during the crisis vis-à-vis political parties and trade unions (Vesan 2013). Union density fell from 49.6 in 1980 to 33.9 in 2008, although it has begun to rise since the financial crisis (OECD.stat). Yet, density is not the only means by which the decline of union power can be reflected: the most definitive changes occurred in 1992, whereby a corruption scandal revolutionized the party system and eroded the traditional party-links with unions (Cella and Treu 2009); while, union divides have become far more visible with respect to EPL reform, and Article 18 in particular – with CGIL opposed to any change in the article (Negrelli and Pulignano 2010). The major consequence of such divisions has been the inability of unions to coherently present alternatives that are viable and inclusive (Culpepper and Regan, 2014: 727). While, at the same time, the unions have particularly poor coverage over precarious workers and limited influence in younger generations, two pressing issues.

The employers' have also faced a number of issues, again revolving around cleavages in interests. The point of contention is similarly centred on Article 18, with Confindustria adopting a conservative stance and even promoting the abolition of the article (Sacchi 2013); while, smaller firms, whom are far less impacted by Article 18, have been unable to form a coherent message for EPL reform, being ideologically divided as employers' representation is split between centre-left and centre-right political orientation (Cella and Treu 2009; Fortunato 2005; Perulli and Catino 1997). At the same time, Ciccarone and Saltari (2015) highlight that disinvestment in corpi intermedi since the 1990's has also limited business pressure. As continued declining performance and competitiveness resulted in further investment abroad rather than concentrating on pressuring the state. Regini (2014) cites Fiat leaving Confindustria as the culmination of this situation as there were questions over the relevance of the organization.

An important study by Rutherford and Frangi (2016) confirms these findings, reinforcing the argument with primary data through interviews. It was made very clear that external constraints were highly important to the adoption of labour market reforms, whereby flexibility was the most pressing issue and it firmly entered the EU into the domestic realm. Indeed, over time European pressure moved from a ‘soft’ maintenance of the European social model, to more ‘hard’ conditionality that required Italy to show commitment to an austerity programme spearheaded by the Troika. CGIL argued this was amounted to an assault on labour rights in a time of economic crisis and union weakness (Rutherford and Frangi 2016: 9).

However, some have argued that Renzi must work with the unions as opposed to against them (Benassi and Durazzi 2014). It is highly evident the unions have been harshly criticized by the EU, the government, and the media; yet, the reality that the unions merely seek to protect their own insiders is not matched by the evidence. As levels of precariousness, and particularly youth unemployment, continue to escalate, the government must turn to the unions in attempting to approach the issue. It must be recognized that past government failures have increased labour market segmentation, through multiplying the contractual relationships open to employers’ that enables them to exploit a more flexible workforce.

The unions may have approached the issue of precariousness relatively late in their history, yet there are numerous instances of their success in bargaining for *all* workers, in spite of the difficulties this entails. For instance, in 2007 the unions were successful in bargaining for the stabilization of project-based call-centre workers, enabling thousands of contracted workers to become permanent; yet, this required help from the government. Similarly, the unions have utilized wide-reaching agreements for temporary agency workers (TAWs), reflecting the unions willingness to support atypical workers, as opposed to merely insiders. The unions have been crucial to ensuring basic training, income protection, salary equality, as well as the aforementioned contractual situation for precarious workers. It is essential that Renzi appreciates these qualities and is able to utilize the resources and expertise of the unions in achieving his goals – in promoting fairness in the labour market, even if this is against the will of the EU.

Highlighting the potential importance of the unions in this process is the increasing fragility of the labour market. As illustrated, the Italian state has been subject to extensive pressure to increase flexibility in the labour market; yet, deregulation was previously promoted in Italy through four notable legislative movements during the decade 1993-2003 (Gallino 2007), primarily aimed at developing non-typical employment contracts. Over a 10-year period, 2000-10, OECD notes that employment protection strictness, out of a score of 5, fell from 3.06 to 2.38 (OECD 2012). The promotion of part-time contracts has been fundamental to this change, considering part-time employment as a percentage of total employment, this rose from 13.5% to 17.4% 2000-10. There was also a rise in the involuntary part-time jobs, increasing 17% to 32% over the same period (Ibid.).

Given the increasing levels of flexible work and the lack of reform in the welfare sector, a process of dualization occurred (Emmenegger et al. 2010: 10). Without reform, which generally challenges important socioeconomic actors, instead the government resorted to quantitative cuts of both benefits and number of recipients (Bronzini 2010; Pedaci 2010). Thus, given the indiscriminate nature of measures implemented, the government in reality created a dualized structure whereby differentiated rights, entitlements, and services were provided to different groups. This presents a problem of citizenship and welfare, given that 'almost non-existent possibility of access to social rights associated with these types of contracts' (Murgia and Selmi 2012: 181).

This, in a large part, is since deregulation contradicts the existing engrained social model based on family structure and truly stresses the pivotal role unions could have in ensuring security for vulnerable groups. It is this social model, coupled with production strategies and regional divisions, that influenced academic description of the model as self-reinforcing capitalism (Amable 2003; Molina and Rhodes2007; Hancké and Herrmann 2007). The largely fragmented production system, with reliance on small-firms, regional divides, and a varying private-public split, coupled with multiple logics of coordination and differing forms of actor interaction, presents the Southern economies as incompatible with the Northern logic (Perez and Rhodes 2014 : 181). The welfare system is inherently linked to the labour market, whereby the segmentation of workers is replicated in the welfare system, therefore, rising precariousness is an even more troublesome issue given the deficient coverage of the state – “flex-insecurity.” (Sacchi 2014).

This becomes even more important given the failure of the Jobs Act. An empirical analysis of the impact of the measures reflects that it is failing to meet its targets, specifically in boosting employment and reducing the share of atypical work contracts (Fana et al. 2015: 23). In fact, the only real noticeable increase in employment has specifically been in atypical contracts. Therefore, the Jobs Act appears ineffective at tackling the growing problem of youth unemployment characterizing the Italian economy, has not contributed to better employment prospects, and is even linked to the worrisome trend of a structural shift towards low technology and low skilled work. In such a setting, the unions may be invaluable allies for the promotion of government objectives, even if it contradicts the liberalist values the EU is attempting to promote.

4.7 Discussion

Given the above evidence, it is clear the EU has been paramount in pressuring Italy to undertake substantial labour market reform (Ferrera and Gualmini 2004; Meardi, 2012a, 2012b). Particularly prior to the crisis, weaker economies in Europe, of which Italy is part of, were subject to stringent fiscal and monetary measures in order to enhance labour market flexibility (Streeck 1998: 436). Important employment measures were pushed through in the 1990's and early 2000's under the banner of vincolo esterno (Hancké and Rhodes 2005; Regini and Colombo 2011). Such external constraints regained centre stage during the financial crisis, as the labour markets problems returned to the fore as the central focus of external pressure. In forcing measures through, traditional democratic mechanisms of social dialogue have been bypassed between the state, unions, and employers (Clauwaert and Schömann 2013). It is such pressure that is argued as to why external constraints have been essential in overcoming domestic opposition (Picot and Tassinari 2014), while Meardi (2012a: 11) states that it only took a few months for the Commission and ECB to achieve the "unthinkable" in terms of reform.

The state has dramatically expanded its power through undermining social dialogue and collective bargaining institutions in a complex way. In the public sector, the state introduced a formal stoppage in order to curb public expenditure – in such means as a wage freeze, de facto reduction in workers purchasing power, career blocks, and even increasing the impracticality of modernizing the public administration, which is particularly contentious given the inefficiency of the administration (Colombo and Regalia 2015: 310). On the private side, it has been far more indirect given the lack of direct imposition of autonomy, instead abstaining from concertation. Through such means, the state has been able to deregulate the labour market, emphasising decentralization of collective bargaining, flexibility, and wage suppression (Pedersini 2013). However, the success has been remarkably low, characterized by a lack of strategic intervention of the state 'in providing guidelines s and incentives to economic actors and investors through the elaboration of an industrial policy' (Colombo and Regalia 2015: 312).

The consequence of such extreme measures is illustrated by the extensive politicization, constant domestic mobilizations, and declining trust vis-à-vis the EU. The logistic regression illustrates this politicization and supports the premise that labour market reform has been the most contentious and significant variable in determining trust. The R-squared values clearly reflect that politicization has occurred, coupled with numerous significant variables on an individual-level, supporting H1. Similarly, H2 is best reflected through Models 5a and 5b, whereby the amount of indicators for expectations demonstrates much greater significance than in Model 4a and 4b. Similarly, Model 7 indicates the most influential variable in determining trust across individual-level variables is country-level expectations. This latter observation not only supports H2 but also H4, which is further reinforced by the fact that the personal job situation, and to a lesser extent expectations, are equally significant and influential.

Likewise, analysing domestic interests also displays support for these core hypotheses. H3 is clearly identified by the continual domestic mobilizations. At the same time, H4 is also supported by said mobilizations, as the overriding focus has been on battling austerity, but equally opposing labour market reform. The Jobs Act in particular has been a notable point of conflict between the unions and government. Yet, of paramount importance has been the consensual approach adopted in Italy, whereby the unions and employers have sought to cooperate in light of the problems facing Italy, with the unions willing to compromise by extending coverage (Colombo and Regalia 2016).

On the other hand, the most significant variable for domestic institutions is the current country employment situation. While it has been argued that supranational pressure was essential to securing labour market reform, an important aspect overlooked was the autonomy of the state in decision-making. Italy is a different creature to the other failing countries, insomuch that it holds far greater economic and political importance to the EU, as well as not operating under direct conditionality. These features ensured that there was some degree of political latitude in decision-making, and thus that labour market reform was definitively driven by internal debate as much as external constraints (Rutherford and Frangi 2016: 12). Numerous government officials highlighted that it was the active choice of the government to undertake labour market reforms to obtain greater financial flexibility, while resisting IMF's bailouts and Troika oversight. At the same time, the government did not need to rely on the corpi intermedi to manage the labour market, and so key reforms were undertaken without consultation. The consequences of such reforms are therefore accountable more or less only to the government, as reflected by the extremely significant and highly impactful finding.

This point is actually very important, since it somewhat counters the perspective of how important exogenous pressure has been for reforming the labour market. While the financial crisis and rising public debt compromised Italy's bargaining position vis-à-vis the EU (Ciccarone and Saltari, 2015), Italy still pertained relative autonomy. Indeed, it has been claimed that the reason why Article 18 was abolished was because the state could not find an applicable solution, thus Renzi made the decision to abolish it - apparently stating: 'I am fed up with this, why don't we just abolish the article?! You know what? … I'm going to kill it!' (Rutherford and Frangi 2016: 12). The fact that all decisions were made without consultation provided the state with sufficient power to make such actions. This is not to say; however, the government could have undertaken the project alone; quite the contrary, EU intervention has been essential and this is definitively reflected through the politicization of public opinion.

One of the most interesting facets of the crisis has been the way by which the Italian state has adopted a new and modified role. Reinforced by crisis-induced emergencies and external pressure, the Italian state has continuously intervened through comprehensive reforms, or through the enactment of measures targeted to influence indirectly the industrial relations actors' behaviour (Colombo and Regalia: 307). This has not diminished the role of the social partners, on the contrary it may be seen as a means of relaunching collective bargaining on new foundations and promoting the responsibility of the social partners, instead it is a means of reshaping industrial relations around a new paradigm that is more structured.

Furthermore, a multifaceted process of external pressure, policy learning, political willpower, and depoliticization ensured that Italy persisted on a path to reform, and achieved notable strides on policy that had been pursued for decades (Picot and Tassanari 2014, 2017). Policy learning through the earlier years stopped the Italian labour market swaying towards further dualism, as the union veto was relatively effective in resisting outright deregulation of dismissal protection; but, at the same time, it has been argued there has been a culture shift in Italy, and the unions, following accession to the EMU as there has been an acceptance that liberalization could benefit the economy (Mazzucato et al. 2015; Cirillo and Guarascio 2015; De Geus et al 2016). However, in spite of external pressure for change, it was crucial that Italy did not acknowledge the demands publically, given the disdain for the EU that had been generated. This was an attempt at depoliticization by means of presenting the reforms as domestically-induced. While the pressure was not recognized formally, it is certain that exogenous pressure from the EU and financial markets played a definitive role in the reforms, as from a psychological perspective it was perceived that Italy had full ownership of the reform package (Sacchi 2013; De Geus et al. 2016). Finally, the fact that Monti possessed the largest parliamentary majority in post-war Italy granted sufficient political backing to make the necessary reforms, coupled with his status as a technocrat that permitted him to undertake the necessary hard changes that Italy needed. The fact that there was a technocratic government was crucial, as their non-political status and emergency situation provided them the foundation to introduce measures that previous governments did not have the willingness to do so, due to the political ramifications, whist this also measures.

It is clear that Renzi certainly also demonstrated similar characteristics, particularly the necessary political willpower. This is a characteristic that severely lacked in Greece, but Renzi personally sought to ensure the successful implementation of the Jobs Act, explicitly denying social concertation on the issue and arguing that radical reform was necessary, but equally steering away from traditional patronage practices in order to attempt to consolidate a new social base for PD (Amable and Palombarini 2014). Thus, as it was argued by Sacchi (2013: 23): 'impetus for completion of the labour reform can only come from the Italian political arena.' Monti himself recognized the importance of such leadership in stating: 'strong leadership cannot be derived from political power. It may only come from the credibility of the personalities involved and their capacity to persuade those with political power, and the public opinion behind them, that the proposed measures must be adopted' (De Geus et al. 2016: 185). For decades, political elites in Italy had been unable to implement necessary labour market reform, a crisis situation, a process initiated by Monti, and subsequent political leadership by Renzi ensured that a domestically-owned reform agenda was able to pass and undermine severe opposition, but also enabled Renzi to achieve greater support from the centre-right than any of his predecessors which ensured a solid foundation to enact his agenda (Browne 2014).

Further, aforementioned, the fact that Italy retained autonomy over crisis management was critical and acted as a form of depolicization. The Monti administration were non-political, providing a sufficient foundation to guide reform that was previously avoided by administrations due to the significant political costs attached. This strategy was an active attempt at depoliticizing the sensitive area of labour market reform (Bozkurt 2013). Yet, it was highly important for Italy that they avoided international intervention, since this would exacerbate the politicization. This was relatively successful, depicted by the lower significance of the regression, in spite of the fact that the people readily recognized the European pressure for reform and austerity. As theory demonstrates, reform agendas are far more likely to be successful if the reforms are domestically-induced (Featherstone and Papadimitriou 2008), which would grant Italy ownership over reform (De Geus et al. 2016: 185). While finally, ensuring ownership of the reform agenda allowed the government to continue social concertation, this both provided input-legitimacy and heightened the potential for success; whilst, appeased the unions to a certain extent as their demands were responded to. The above processes enabled the state to implement a harsh, but successful program of reforms, many of which had been avoided or pursued unsuccessfully for decades.

Given the ownership of decision-making also provides the possibility for the continuation of domestic factors to influence policy-decisions. In fact, Colombo and Regalia (2015) concludes, through extensive interviewing, that at least in the manufacturing sector, trade unions retained great influence; while Picot and Tassinari (2014, 2017) feel virtually all reform measures display a degree of union influence. In spite of recurrent labour market reform, collective bargaining practices had not been substantially affected and the unions retained strong organizational power and an important role in the regulation of labour. For instance, Monti lamented that his measures with regards to labour market flexibility were pressured to be diluted following resistance from DP, whom had strong organizational links to the unions (De Geus et al. 2016). Likewise, the government appears less willing to intervene in industrial relations and instead increased in the tendency to cooperate and intervene in fields of their competence (Colombo and Regalia 2015: 316). This should increase the incentives for the social partners to innovate creative solutions.

At the same time, the employers' have remained willing to negotiate with the unions. This feature has become pivotal during the crisis as there has been a lack of social concertation, with cooperation seen as the best avenue for regulating the labour market. Specifically, Confindustria is seeking a more flexible system of rules. It has not been just the unions' conservative positions that have traditionally prevented increasing the efficiency of collective bargaining; but equally, the resistance of employers to invest in innovation and depart from traditional practices. These developments highlight the growing prominence and potential the social partners offer the Italian state as key actors in ensuring effective labour market reform. However, the only possibility to restrict such developments is the potential introduction of a statutory minimum wage, even without the approval of the social partners (Ibid).

The premise that there has been a convergence of position between ideas and interests, in supporting H3, is highly important. As strongly argued by Culpepper and Regan (2014), the unions have lost considerable power, resulting in the fact that 'the most recent episode of Eurozone reform has shown that the governments no longer feel that unions are worth the trouble of bringing into privileged negotiation. They can be treated as just one interest group among many' (2014: 21). Yet, there are a number of caveats to this assumption. Firstly, public opinion cannot be ignored, the convergence of position strengthens the union's claims as well as providing a degree of legitimacy and credibility. Secondly, the traditional "self-serving" perspective of union activity needs to be disregarded, as the unions may be highly important actors in ensuring successful and fair labour reform. It may well be that the government has the power to outright ignore union influence, but that would be foolhardy given their expertise and coverage that can provide the government with input-legitimacy in their implementation.

Governments have become pivotal in labour market reform over the last few decades, which is ever more prevalent since the crisis as the power has definitively shifted within the state. Thus, decisions do not reflect an institutionalization of social concertation, or indeed a consolidation of a majoritarian, bipolar dynamic (Vesan 2013: 16); instead, it has been the crisis and intensification of exogenous pressure that has dictated the agenda, and agenda-setting power, of the government. In addition, both trade unions and political party's role in policy-making has faced serious challenges. Both have suffered a legitimacy crisis, dramatically reducing their power, while consequential collective bargaining reform has even further undermined the role of the unions. At the same time, liberalization of the labour market has been a deliberate attempt to reform the clientelist linkages that parties have with key sectoral groups, thus removing both incentives and power base. The consequence of such developments has resulted in a notable increase in state power, but a reduction in domestic interest intervening or influencing decision-making. Thus, for the unions in particular, the tactic has been not to resist change, but attempt to postpone the pace and limit the extent of measures.

It has been this point that reflects the on-going power struggle at a domestic level in Italy. The conflict between the social partners indicates a victory for domestic capitalist groups and the demise of left-wing trade unions (Talani 2017: 212), as there has been a transformation from a welfare state to a competition state by means of a deliberate and calculated process by Italian elites. Yet, these processes have failed and only served to intensify both societal considerations and the relevance of the underground economy in Italy – as the structural loss of competitiveness continued. The ramifications of this are still being observed but there is certainly potential for renewed social pressure for a revised strategy that undermines these measures of liberalization as the logic of the neofunctionalist prediction that liberalization of labour markets is a necessity has been proven false.

The current crisis has certainly witnessed a realignment of power around the centrality of the ECB, with the process of 'executive federalism' (Mezzadra and Negri 2014). While supranational institutions may not have direct intervention in the Italian state, there is a remarkable strategic use of the international financial markets to ensure compliance; while the Italian government utilizes the same instrument vis-à-vis the Italian public (Sacchi 2014). This adjustment has significant connotations for the direction of institutional reform as well as the integration project. Given the new class of workers and poor that has been generated by the crisis and further impinged under the constitutional dictatorship of European intervention (Mezzadra and Negri 2014), there has been important domestic political organizational developments through both public and union activity. However, the political struggle has been transposed to a European level, furthering the neoliberal trend particularly within these crisis states, which works against domestic groups that are incapable of developing a European discourse. This places significant questions over constitutional and legitimacy concerns, that social welfare and justice has been moved to a supranational level where in the modern era political realism exists.

4.8 Conclusion

What becomes clear is that institutional transformation is heavily dependent on power, especially state power (Regini 2014; Rutherford and Frangi 2016). Mixed-market economies have struggled to adapt to the neoliberal pressures of liberalization throughout the crisis. Given the inherent clientelist structure of such states, the burden of adjustment has been shifted largely to "outsiders" of the system, given that the state plays a facilitating role through compensation and the crisis has challenged this role. Hassel (2014: 33) argues that given such circumstances, coordination should be a preferred and more effective policy than liberalization, yet liberalization is chosen to disrupt these clientelist structures. Nevertheless, powerful domestic considerations oppose such measures and limit the overall effectiveness of such policies.

Yet, this shift in power and adoption of liberalization has had a definitive effect of politicizing the EU and has fed back into a severe crisis of legitimacy and democracy. Both domestic and EU trust has fallen dramatically, as illustrated through the logistic regression analysis, with labour market reform being the most contentious issue for the public. There is a clear suggestion that in spite of severe exogenous pressure, the reform process has been hindered - reflected by a process of embedding flexibilization rather than full deregulation (Picot and Tassinari 2017). This is particularly evident under the Monti administration, which in spite of strong external pressure, an emergency situation, and a technocratic government, the government could not undertake full liberalization, as was seen in Spain for instance. The government had to rely on the centre-left majority, thus providing greater relevance of union influence.

In terms of the key hypotheses, there is evidence to support all the suggestions of this work. Firstly, the logistic regression provides substance to H1, H2, and H4. It is clear that politicization has occurred, with EU trust models being slightly more effective at explaining trust as well as the clear significance of a number of variables. At the same time, H4 is illustrated by the consistency of labour market variables as significant indicators of trust, whilst H2 is supported by expectations displaying significance across all models.

On the other hand, the positions of the unions largely support that of the public. Labour market reform has been the major source of conflict, but throughout the main unions have all called for social justice and equality. These perceptions are largely consistent with that derived from domestic ideas analysis, whereby not only has labour market conditions been the most clear point of objection, but equally life satisfaction and financial considerations have shown significance. This convergence of position supports H3.

The telling characteristic of the research has been the victory for the employers against such extreme societal resistance. Confinudstria in particular has displayed notable influence in policy proceedings, even prior to the crisis (EIROnline 2002); and have long argued for extensive labour market deregulation as a means of promoting competitiveness vis-à-vis flexibility. Even before the crisis, the emphasis attached to liberalization and deregulation as a means of promoting employment and growth, which thoereitcally has been justified on neofunctonlist grounds, was demonstrably ineffective; yet, this continuation and even intensification of the process only serves to reflect the prominence of employers' during this period as they have been successful in facilitating a progressive weakening of workers' organizations power and promoting a transnationalization project.

Even still, there is still evidence that in spite of this overarching process, domestic considerations have been effective at limiting the overall scope and implementation of liberalization. The developments reflect the inherent sustainability of the clientelist system, resisting liberalization pressures. Even the recent Jobs Act has somewhat failed, which may have even reinforced dualism as insiders remain protected in spite of the changes. These observations support the argument that societal considerations have remained prevalent throughout in spite of exogenous pressure. Likewise with the case of Greece, it is possible this is consistent with the assumptions of postfunctionalism, critiquing the view of Schimmelfennig (2014).

These findings are consistent with a number of key works, notably Marzinotto (2015). Marzinotto argues that Italian domestic preference formation is inevitably key in sustaining fiscal adjustment, emphasised by the successful consolidation pre-EMU fuelled by a convergence of competing socio-economic interests due to side-payments in devalued currency. By a similar logic, the government both needs a convergence of socioeconomic interests and the subsequent support of these societal forces to ensure successful labour market reform. Thus, both distributive conflicts and the role of institutional complementaries, i.e. the functioning of the labour market, are essential to ensuring macro-economic stabilization and successful institutional reform.

Consequently, the Italian reform process desperately needs to address issues of precariousness and coverage. As such, the capability of unions to homogenise these groups within its framework remains paramount to challenging the European policy hegemony. Yet, the programme has been decisively dictated by supranational intentions on the back of implicit conditionality, limiting the role of societal considerations. Whilst the overall impact of the measures has been limited, the course remains firmly focussed on deregulation. Any potential to alter this and challenge the existing problems must come from the domestic political arena. Developments in recent years highlight these concerns manifesting into both discourse and political change, particularly with the recent growth of anti-austerity movements such as 5SM, particularly since these groups have proceeded on a supranational level simultaneously. There is serious potential for such domestic approaches to challenge the existing political status quo and change the space of policy innovation (Sacchi 2013a).

5.1 Conclusion

The core argument of this paper is that domestic considerations should play a crucial role in the path taken since the crisis. This understanding follows the seminal work of Gourevitch *Politics in Hard Times* (1986), which anticipates that when faced with a common shock countries would respond in different ways and that various features of the policy response may be attributed to societal interest and domestic political processes. The novel contribution focuses on the fact that labour market flexibility has been the focal point of reform in the periphery, largely in spite of societal resistance from both the unions and public opinion. It is clear, however, that powerful employer relations have had a fundamental role in this process, whilst it also favours international capital interests. At the same time, there has been a fundamental lack of structural reform in other areas that are a prerequisite for long-run growth: predominantly because such reforms have a high political cost and cause conflict with entrenched interest groups or vulnerable social groups (Bongart and Torres 2015: 53).

The heart of this works argument rests on the proposition that domestic considerations have been influential in government preference formation. Underlying this proposition is the core element of political trust. The work presents quantitative evidence to support the premise that political trust is a central determinant of successful reform implementation, and that the crisis has generated significant politicization vis-à-vis the EU and domestic institutions that limits the scope for reform, particularly when coupled with the position of the unions that support public resistance. However, labour market flexibility has been applied extensively. It is argued that the nature of the situation necessitated this, for a return to the financial markets, as well as influential supranational pressure that provided suitable external constraints. It is also plausible that labour market flexibility has been preferred, in that it satisfies creditors and clientelist tendencies, given that such policies are short-term and targetable. This is reflected by a recalibration of the labour markets in face of pressure for liberalization. Finally, the work considers why there has been a divergence of reform trajectory, in spite of Greece and Italy possessing similar political economies and institutional specificities. The argument is that Greece's societal considerations are more prominent, while they permeate the political structure more thoroughly given greater clientelism. The argument also considers that state-power and political willpower is essential to appeasing and overcoming societal considerations, as seen by the success of Renzi's Jobs Act. Consequently, the work provides quantitative evidence demonstrating the significance of a lack of trust and politicization, displaying consistencies with postfunctionalism and promoting a plausible explanation for government preference formation.

This concluding chapter shall first review the methodology of the paper and present a derivation for the hypotheses. Following this, a summary of the findings against the hypotheses shall be conducted, this shall briefly summarize the research and present evidence in support of this works hypotheses in a brief comparative analysis. This shall be supported by a more detailed discussion that elaborates on the comparative analysis. It shall assess why labour market flexibility has been successfully imposed in spite of significant domestic political considerations, potentially why this policy has been favoured, and why governments have struggled to implement any additional structural reform. The chapter shall then conclude the work.

5.2 Framework Review

This section presents the hypotheses and methodology of the work. It briefly outlines the theoretical framework and as to why it has been applied. Further, the section shall overview the methods adopted by the paper and how these contribute to the falsification of the hypotheses.

The core hypotheses are as follows:

H1: That there has been a continued politicization of public opinion vis-à-vis the European Union.

H2: The perception of crisis management in the public sphere is crucial, whereby a perception of ineffective policies and a supranational imposition has contributed to the deterioration of socio-economic fundamentals, which has been a catalyst for declining public sentiment.

H3: This deterioration of public opinion has been matched by vehement opposition from domestic interests – namely the trade unions. Thus, societal interests and ideas have converged during the crisis, forming a prominent obstacle to effective reform.

H4: Extensive focus on labour market reform has played a defining role in societal considerations. Both the unions and public opinion are expected to oppose measures, while the employers should favour reform.

H5: Consequently, it is hypothesised that government preference formation has been consistent with the positions taken by domestic interests and ideas, and that both policy decisions and their subsequent implementation have been impacted by domestic politics.

Derived from the logic of postfunctionalism and the theoretical framework of Schirm (2013; 2015) the above hypotheses have been developed in an attempt to decipher the mechanisms by which domestic politics may affect government preference formation. The core hypothesis suggests that societal considerations have played a central role in the decision-making and implementation of policy in both nations, strongly based on the founding principle of Schirm's theory. The paper sought to examine why these countries have experienced a convergence response to the crisis and struggled to adapt to the supranational demands placed upon them, but at the same time indicates various areas of divergence in the subsequent developments – a key feature that demonstrates the specific nature of each case and how domestic politics could have contributed. The work hypothesises that domestic political factors have to some extent undermined European pressure for reform in both nations, limiting the extent of implementation, particularly in Greece (e.g. Exadaktylos and Zahariadas 2012).

The fundamental premise of Schirm's framework is that governments strive to stay in power and thus should be responsive to societal demands. Postfunctionalism theorizes that domestic politics has become tightly coupled to European outcomes and so national governments need be concerned with their European policies, particularly with growing politicization. It is predicted that a wide gap between elite and the public should emerge, as well as growing intra-party conflict, in conjunction with failed referendums and an attempt of governments to depoliticize European issues (Hooghe and Marks 2008: 21-22). This applies through conditionality as much as it should be reflected by domestic policy decisions, as governments may be unwilling to implement unpopular supranational-inspired legislation.

This work applied an adapted domestic political framework inspired by Schirm (2013), which utilizes domestic interests and ideas as core societal considerations in the policy-making process. Underlying the theory is the core assumption that governments in democracies want to stay in power and thus must be responsive to societal considerations (Schirm 2013: 5). These societal influences may be summarized by societal *interests* or *ideas*. Interests are defined as 'sectoral material considerations whose cost-benefit calculations can change rapidly according to changing economic circumstances such as economic crises, competitiveness, and new global, regional as well as national economic regulations' (Schirm 2015: 2). Whilst, ideas are conceptualized as 'value-based collective societal expectations about appropriate governmental positions and behaviour' (Ibid). Both ideas and interests may compete with one another for influence, or equally could mutually constitute on another (Schirm 2009; 2011; 2013; 2014; 2015). The basic tenet of the framework is that governments wish to stay in power and thus must reflect the interests of core societal considerations in their policy decisions.

The research applies numerous methodological approaches that are consistent with the traditional approaches in the literature for determining policy choice. Specifically, the core methods include: political discourse - such as government communication (Crespy and Schmidt 2013), parliamentary debates (Wendler 2014), party manifestos and positions (Benoit and Laver 2006; Hutter and Grande 2014), and media reporting (Statham and Trenz 2013); studies of protest (Imig 2004); and public opinion analysis (McLaren 2006; Thomassen 2009). The above techniques encompasses what has been labelled "the public sphere" and due to the array of methods utilized can effectively contribute and support the literature, validating the claim that the centrality of the public sphere to European issues "effectively 'brings the public back in" to European politics' (Statham and Trenz 2014: 6).

In doing so the work provides both a quantitative and qualitative understanding of societal considerations. In particular, the work utilizes a multi-level binary logistic regression of public opinion in a similar vein of Hobolt and Wratil (2015); Braun and Tausendpfund (2014); Banducci et al. (2003); Arnold et al. (2012); and Schlipphak (2012). Multi-level modelling is appropriate given the varying contextual indicators presented as well as a hierarchical demographic and geographic structure. Multi-level modelling outperforms simple pooling and non-pooling estimates, while vastly outperforming simple disaggregation and produces strong state-wide estimates of public opinion. In addition, the model presented in this paper exploits the depth of individual-responses and characteristics within

Eurobarometer surveys through an extended period that represents the entirety of Euro membership and accounts for both individual-level and contextual-level responses as well as ensuring effective control variables. This is in line with the advice of Ehrmann et al. (2013) that using individual-level data allows ‘to control for the effect of different variables that influence trust in the ECB and identify the marginal effect at the individual level.’ This is critical given the importance of unobserved heterogeneity with the statistical importance of age, gender, and educational level in determining support for the EU (Ibid.).

In contextualizing domestic ideas, the work utilized the qualitative suggestions of Schirm with a combination of quantitative methods to substantiate this. Firstly, domestic interests were understood as the core positions of both key interest groups and employers’ associations. In a detailed quantitative analysis, the research considered official statements made by the various societal actors that should indicate their positions on various policy, which was supported by an overview of domestic action to support the prior findings. Finally, the research undertook a range of elite interviews with relevant domestic actors, particular concerning trade union and employers’ association representatives.

On the other hand, the novel contribution of the multi-level binary logistic regression aimed to quantify domestic ideas by evaluating changes in trust level of the public opinion vis-à-vis the European Union and national government across certain time periods, with the results demonstrating consistencies with postfunctionalism. This model utilized extensive data from Eurobarometer surveys to disseminate changes in public trust vis-à-vis national and European institutions against various contextual indicators. The models differentiated between both the current period and expectations, while also accounting for various control variables – notably democratic quality and socio-demographic indicators. This model demonstrates the significance of politicization against various policy areas, in particular the labour market, and builds upon the descriptive techniques of analysing public opinion to provide quantitative validation.

Ultimately, in order to assess the relative influence of domestic interests and ideas, the work correlated the above evidence of understood positions against the policy developments and expectations, utilizing the preference attainment method to evaluate how much influence domestic groups have on policy outcomes (Dür 2009) and applying the Varieties of Liberalization literature to assess the degree of liberalization achieved and evaluate the level of divergence between the two states. A measurement of influence is complicated, and should aim to display "a causal relation between the preferences of an actor regarding an outcome and the outcome itself" (Nagel 1975: 29). For instance, a few key characteristics are that influence may occur through a variety of channels, or may be offset by counter-lobbying, and is of course relative to the degree of power that each actor has in the policy process – all of which are entirely relevant to the conflicting status of the trade unions and employers. Nevertheless, the work aims to present a simplified understanding of this by summarizing the positions of key actors in the process and correlating these against the final policy outcome, in both decision and implementation. Finally, the work provides plausible explanation for the divergence in institutional reform and as to why both governments have been able to overcome domestic resistance to labour flexibility.

5.3 Hypotheses

This section shall evaluate how the hypotheses of this research were derived and consider the findings of the research with respect to the hypotheses. It shall deliberate on the paths taken in both cases, assessing briefly the how societal considerations could have impacted government preference formation. This superficial overview shall be extended upon in the following section in a more detailed comparative analysis.

Based on previous research the work hypothesized that the longevity of the crisis would exacerbate existing politicization, furthering the movement toward a constraining dissensus (H1). This work concentrates on political trust in institutions, which is widely understood as the paramount variable for successful reform. The work takes this idea further, arguing that the extent of politicization is potentially founded in the public perception of how effective policy is or will be, given that ultimately public opinion is a social construction based on an idea (Gingras and Carrier 1996): as observed by a variety of influential scholars on public opinion, 'we don't measure truth, we measure perceptions' (Worcester 2013: 4). This is particularly true in the world of public policy and echoes the logic of slave-philosopher Epictetus, 'perceptions are truth, because people believe them.' Nevertheless, in spite of this fact it is crucial to recognize the importance of public opinion, a feature recognized as early as Niccolò Machiavelli (1469-1527) for being paramount in the division of positions of office, due to the fact that 'social control depends upon devising standards of living and methods of audit by which the acts of public officials and industrial directors are measured' (Lippmann 1982: 22), a premise that founds the logic of Schirm's framework. Thus, if it is believed that declining socio-economic fundamentals are potentially linked to supranational intervention then politicization against the EU will be significantly greater (H2). This is important because the EU's rhetoric is that its intervention has of course been beneficial, whilst much of the public attribute only negativity towards it.

In the same vein, if it is perceived that supranational inspired reforms may have negative consequences then politicization should be greater. This latter point is related to the overbearing emphasis on liberalization of the labour markets: a process that has sought to further embed neoliberalism in the Greek economic system through stringent internal devaluation through the institutional transformation of collective bargaining institutions and the flexibilization of labour markets in the face of severe domestic resistance (Kennedy 2016). This is why it is hypothesized that labour market reform may mobilize public opinion and trade union resistance; whilst, at the same time, may hold the support of the employers as the dismantling of collective bargaining empowers capital vis-à-vis labour (H4). It is argued the position of trade unions should converge with that of public opinion, reinforcing societal resistance, which amplifies the influence of domestic political considerations (H3). The qualification here, is that often the employers favour further flexbilization, but there are instances of consensual cooperation between the unions and employers which formalizes a powerful position for domestic considerations. Finally, based on the above hypotheses the work argues that domestic political considerations have been highly impactful in a number of directions: where resistance has been greatest, and there has been a lack of political willpower, reform has stagnated; whilst, in other areas, the employers have seen great success in acting as a catalyst for change – notably where international pressure has been strongest: labour market flexibility; whilst finally, notably in Italy, there has been a convergence of position across all domestic variables: insomuch that, the public recognize the need for reform, and the unions have found sought cooperation with the employers and extended coverage to "outsiders" (H5).

5.4 Why Selective Reform?

This section shall provide a brief summary of the previous research chapters against the hypotheses. It shall undertake a brief comparative analysis of the findings. The work theorized that domestic considerations, in the form of interests and ideas, should have a fundamental role on government preference formation and ultimately impact policy decisions and implementation. However, the work found that capital interests have been far more impactful than ideas. Politicization in both Italy and in Greece has been against labour market reform as it is perceived to be imposed by Brussels. Yet, powerful employers' associations have been in favour and have been privileged with inside access to policy-makers. A combination of necessity, external pressure, and support from the employers have been paramount in overcoming societal resistance to change. Nevertheless, the evidence has noted a varying degree of liberalization in both nations as the path of reform has diverged. Predominantly, the reform path has favoured firms as a decentralization of collective bargaining has empowered capital vis-à-vis organized labour. However, many of the reforms in Greece has been short-term, disjointed, and uneven, whilst also lacking implementation, features consistent with clientelism and pressure from public opinion. The comparative analysis shall evaluate the reforms undertaken in each nation while providing an explanation for this divergence.

The crisis represents a critical juncture whereby governments should be able to overcome traditional veto-blocks in society and enact substantial institutional change, and this is consistent with domestic interests (Cortell and Peterson 1999). The core findings indicate that significant labour market flexibility has occurred through a process indicating recalibration, albeit in a different manner in each nation, which contradicts traditional theory; however, the work pertains that societal considerations have played a pivotal role – seen by the manner by which the burden of adjustment has been shifted to outsiders and particularly emphasized by the limited structural reform aside from labour market flexibility. This latter consideration links to the institutional capacity of states to capitalize on this window of opportunity for reform, the paper suggests that the institutional systems of these states amplify societal considerations, while the level of politicization increases this pressure, which essentially diminishes the capabilities to enact reform. The work applies a domestic political and institutional evaluation in order to assess why this occurred. It also takes this a step further, in providing a comparative institutional analysis of the consequential reform trajectories of both cases, and elaborates on why there has been a clear divergence despite possessing similar political economies.

To summarize the findings, the research found support for all hypotheses. For H1, the multi-level regression clearly displays continued and growing politicization of the EU, particularly in the realm of labour market reform (H4). The socio-economic implications of the EU on individual welfare has been realized, exacerbated by the disciplinarian governance structure applied through the crisis and even further intensified by the *loss aversion* principle - whereby societal groups prefer to avoid potential losses than acquire possible gains, making agents risk-averse in preference of maintaining the status-quo (Thompson 2010: 13). The clear shift of decision-making competences to a supranational level, while the legitimization process remains on a domestic level, has generated a severe legitimacy crisis. This new intergovernmentalism now faces increasing political contestation and domestic challenges that previous supranational movements did not, with the supranational domination of economic policy-making being recognized as an unjustifiable feature in the eyes of public opinion (Fabbrini 2016). The enforcement of such policies has largely been perceived as intrusive, and given that the competences have remained national, implementation has been significantly hindered by domestic political considerations since, ‘structural reforms [will not] work when implemented under duress’ (Nicolaïdis and Watson 2015: 74). Further still, the fact that such a process intends to implement structural reform regardless of whether it is appropriate for the institutional, social, and political arrangements of the country demonstrates the clear violation of the European Social Model and highlights clear issues of legitimacy, democracy, and social justice (Sawyer 2013: 90): all of which contributes to intensifying societal resistance and declining trust in both domestic and supranational institutions.

Upon evaluation of these findings, while corroborating this understanding against developments in each nation, it has been presented here that both H2 and H4 can be understood by the logistic regression: whereby labour market variables are reflected as the most influential variables across models and have become more pronounced throughout the post-crisis period. The point of note with regards to findings on public opinion is that the logistic regression cannot provide a detailed understanding on select policy, instead providing a precise evaluation of the trend of public opinion with regards to policy areas. While there is this basic similarity, there is a marked difference in the specificities of each countries models: with the Greek results indicating more significant findings with regards to the current situation for European trust, and across a wider range of variables; while the Italian models are far more concentrated on future-level country labour market conditions. At the same time, the Italian models displayed greater significance for domestic trust levels across a multitude of variables than the Greek, which was more concentrated on expectations.

The supposed reasoning for the above difference in significance lies in the management of the crisis and the greater transfer of sovereignty in the Greek situation, thus limited state-power and political ownership of reforms. Supranational pressure and declining socioeconomic conditions is therefore consistent with growing politicization and highlights that current conditions may be linked to supranational intervention. Given that the Greek reform agenda has been dictated by international pressure, it appears that people attribute current socio-economic conditions to the EU, as much as their own state. On the other hand, while expectations are still significant for European trust levels, domestic trust displays greater significance and continues to decline. This may be due to a variety of reasons but is assumed to be linked two key reasons: firstly, to the inability of domestic government to formalize an effective alternative strategy and oppose austerity; and secondly, the fact that political parties are traditionally corrupt in these nations and have been blamed for the problems facing their nations (Mouzelis 2005; Lyrintzis 2011). The former point has certainly played an important role: ‘It appears that the Greeks not only punished the government for poor economic performance, but also for allowing those international interventions’ (Kosmidis 2013: 34), it has also been a regular complaint of the unions – as emphasized by the interviews. The latter point is particularly important given that there is a recognition of the inadequacies and failings of the state to implement necessary reforms. It has also been demonstrated that a lack of political trust is highly related to a government’s implementation record, and so the government has faced an uphill struggle from the start (Exadaktylos and Zahariadis 2013); while in spite of avoidance tactics by political parties, the Greek people inevitably assign blame given the dramatic collapse of economic fundamentals. While substantial reform has been made, in general they have been short-sighted, overly localized, and badly sequenced. This lack of domestic leadership has been a major factor in the crisis and it is recognized by the public.

The Italian case is more complicated to be understood given the complex nature of supranational oversight. However, it is widely recognized amongst the Italian people that European pressure is paramount for the direction of reform in the crisis and as such should have a distinct impact upon the future path of the Italian economy. Indeed, Sacchi (2015) argues that the Italian state has been governed by ‘conditionality by other means,’ insomuch that implicit conditionality is drawn from a clear understanding of the stakes and sanctions involved, which is sustained by the power asymmetry within the Eurozone and enforced via market discipline. This pressure is reflected through expectations, whereby the Italian public attribute European intervention to future changes in the economy, which again largely revolves around labour market reform: this premise is best reflected by the core priorities set forth by the European Commission, IMF, and ECB under the fiscal adjustment plans, with the ultimate aim to liberalize the labour market – a process that culminated with the Jobs Act. Likewise, given greater state sovereignty there is far more significance in domestic trust levels across all variables that indicates current-level variables are more significant to domestic trust and how effective the state is at enacting such reforms effectively; whilst the same qualities of corruption and ineffectiveness have been attributed to the Italian state. This latter point is particularly important as there has been an active attempt of the Italian state to avoid international intervention, as a means of mitigating the extent of politicization.

Underlying this are issues of democracy, which are clearly reflected by the logistic regression and links strongly to H2. This can be inherently linked to the active attempts of the EU to depoliticize economic governance throughout the crisis. This transition from a consensual decision-making system to domination symbolizes an enhanced supranational system whereby macroeconomic governance has moved to a European level (Dehousse 2016; Fabbrini 2016; Puetter 2016). A lack of a legislative check has been seen as an unjustifiable feature by public opinion and states alike, promoting significant levels of distrust and opposition to supranational intervention as well as exacerbating the old European problem of the democratic deficit and raising concerns over legitimacy and accountability. Crisis-induced reforms have notorious problems with legitimacy as power is centralized and traditional due process is ignored, this problem is substantially exacerbated with the transfer of sovereignty to a supranational level (Boin and Hart 2003)

A further key difference found in the multi-level binary regression centres on the relative significance of the control variables as influential predictors. For Greece, virtually all demographic indicators were insignificant, possibly signifying that people at all levels within society may not trust the EU. On the other hand, in Italy it has been illustrated that both education and occupation are significant predictors of trust. White collar and manual labour workers were generally significant indicators, whom generally displayed lower trust levels than the reference, which was self-employed. This is consistent with the argument that EU influence is largely impacting the labour market in Italy, since those are the people most likely to be affected as unemployment has hit all sectors (Mazzucato et al. 2015 and Cirillo and Guarascio 2015), while in Greece the European impact is more severe and widespread. The fact that different sections of society have varying degrees of trust is important for government preference formation. As Fernandez and Kuo (2016) found in Spain, it is difficult for the government to formalize a coherent agenda when there is no consensus to challenge the status quo and that attempting it is politically daunting, such as in Greece whereby there are no significant predictors of European support demographically. On the contrary, the model shows that generally trust is far lower across all sections of society and thus this actually does provide greater leverage for the government to resist austerity.

On the other hand, H3 remains somewhat contentious. It is difficult to argue that the trade unions have held much influence throughout the crisis, primarily due to the fact there has been little to no social concertation. This is notably reinforced by the key fact that labour market flexibility has been implemented extensively in spite of great resistance of the unions: for instance, in Italy the Jobs Act signified a complete disregard for union interests as it entirely undermined their opposition to the change – a landmark pessimistically labelled as the “end of labour rights” by left wing opponents. Even prior, the technocratic intervention of the Monti government was necessary to overcome union resistance through decentralization of collective bargaining: there were attempts to engage the unions in concertation but due to a lack of compromise the prime minister eventually argued ‘no one has the power to veto’ and was able to pass the contentious reforms (*La Repubblica* 2012). This is consistent with the earlier reform path undertaken in Italy, initiated by the prior Berlusconi administration (Talani 2017). A similar situation has been observed in Greece, as supranational pressure enabled the state to decentralize collective bargaining entirely and exclude the unions from social concertation.

However, it is argued that the extent of reform has been limited, as observed during the Monti administration, where it is argued the original intention for policy had been somewhat lessened due to union influence. “Left-power” arguments may provide a valid explanation for these lack of developments, whereby it is stressed that the Italian government was forced to rely on strong centre-left support, which relatively exaggerated the strength of the unions. Elsa Fornero (2012) specifically highlighted this exact issue as the paramount reason for why government was unable to implement substantial structural reform, since it would be ‘not been viable politically.’ It has also been documented that the unions in Italy have operated more consensually that the counterparts in Greece, bargaining with the employers and demonstrating willingness to extend coverage to outsiders, which has aided their credibility and opportunities (Recchia 2016).

The only consideration is that, particularly in Greece, domestic action by the unions has been strongly supported by strong negative sentiment in the public domain that may have amplified their influence. This may be theorized to have a disproportionate effect on the policy-process and implementation as there is a convergence in position between formal union opposition and widespread public resistance. It has also been empirically demonstrated that union activity has been critical for weaving together phases of public contention, essentially enabling public resistance (Diani and Kousis 2014: 401). Finally, given the prominent clientelist nature of both countries, although more influential in Greece, the vigilant opposition of the unions is assumed to be a powerful tool. There are consistencies in both cases to suggest that the above understanding is plausible that have been supported in the literature (e.g. Afonso et al. 2014; Dellepiane and Hardiman 2012; Trantidis 2016).

On the other hand, the correlation of employers' interests with policy outcomes solidifies this understanding, as policy developments have been strongly aligned with the desires and even manifestoes of employers' associations: most notably to the degree that the Memorandum was aligned with the manifesto of SEV; but equally, the Italian state were widely criticized for taking their lead from Confindustria. In both cases, it has been demonstrated that the reforms have empowered firms vis-à-vis labour, by dismantling collective bargaining and undermining labour rights. Ultimately, however, labour market flexibility has been a necessary response to ensure consolidation and restore market confidence, which in itself provided leverage for the employers as their aligned vision with the Troika provided both impetus to the agenda and input-legitimacy for governments undertaking reform.

The work found strong evidence in support of H4 for both domestic ideas and domestic interests, but that interests have potentially been far more influential. The multi-level regression identified that labour market considerations were significant indicators for the lack of trust in the EU, differing between current-level or expectations between Greece and Italy as previously referred to. Labour market flexibility has been applied extensively, enabled by great international pressure that may serve the interests of international capital, rather than the people subjected to the harsh terms. It is argued that international pressure has been critical to ensure these reforms, but the way in which the process has been managed, as well as the socioeconomic outcome, has generated politicization. Evidence and critique suggests that such measures are a means to finally subordinate labour to the dictates of neoliberal competitiveness (e.g. Misir 2011; Fraser et al. 2013; Storm and Naastepad 2015), but it is also a policy that states have favoured. It is a short-term measure that provides suitable action to ensure market confidence and secure access to the financial markets. It also satisfies any clientelist tendencies by being targetable, demonstrated by how the burden of adjustment has clearly been shifted to outsiders, while maintaining the status quo of society. It is the importance of these ingrained societal influences that has forced the state to concentrate on consolidating through internal devaluation rather than emphasising structural reform in other areas, which might challenge these client-patron links. Lastly, supporting this case is the fact that in spite of the reforms, the resilience of the industrial system has been maintained and underlying integrity not threatened (Kornelakis 2016).

Finally, the evidence suggests that in both directions the government has considered domestic political factors (H5). It is clear the employers' had a notable impact upon policy formation throughout the crisis, and in particular during the early crisis stages – predominantly founded on a relatively aligned vision for reform with the EU and open dialogue with policy-making institutions. While, on the other hand, a correlation of public opinion, trade unions positions, and social action indicates that a lack of implementation of certain measures could have been derived from societal pressure; with clientelism almost certainly remaining a vital factor in the lack of institutional reform aside from labour market flexibility. The supranational agenda has clashed with entrenched societal interests, which are challenged by the structural reforms that have been promoted, as noted by Bongart and Torres (2016: 53): 'the common objectives… come to encompass increasingly salient political and distributional issue… [And] risk being perceived as intrusive as competences have remained national.' The lack of trust in domestic and supranational institutions has been a defining feature of the European crisis, with the EU displaying clear concern in this development. It has been this lack of trust that underpins the lack of structural reform and challenges the longevity of European integration.

The core argument is that domestic considerations have been critical to government preference formation; but the evidence suggests that capital interest in particular have been paramount. However, in Italy it is clear the process is a continuation of one that begun earlier, instead domestic considerations acted as a catalyst. Labour market flexibility has been enabled by international pressure, but also the necessity of the situation, while further structural reform in associated areas has been restricted due to the institutional specificities of each political economy and the severe lack of political trust. It is apparent that many of the structural reforms were not implemented, or not implemented to a sufficient scale (Blanchard 2015): for instance, in Greece only 5 of the 12 IMF reviews had been completed, and only one since 2015, due to severe resistance to open closed professions. Instead, the state has looked to ensure market confidence by consolidating finances and displaying a willingness to reform through flexibility, which are often short-sighted and shifted to outsiders of society, a process that has sought to appease both international pressure and domestic patron-client relations.

5.5 European Crisis Management

The above section presented consistencies in findings against the hypotheses. This section shall provide a discussion of the research by undertaking a detailed comparative analysis of the findings. This first part of the section considers consider by how and why labour market flexibility has been applied so extensively, which is argued to be related to three essential features: the necessity of the situation, the new intergovernmental system of crisis management, and international pressure. The necessity of the situation to consolidate provided significant impetus for reform, particularly in the case of Greece whereby fiscal profligacy was certainly a catalyst for economic decline, as well as to ensure the survival of the EMU given the unprecedented negative spillovers. The new intergovernmental system of governance de-democratized economic policy-making, shifting power away from states around the centrality of the ECB and attempts supranational enforcement of reform, with labour market flexibility fronting the agenda. While, international pressure has been crucial for states, whom utilize such commitments to appease societal pressure against reform.

Recent years, and accelerated by the crisis, has seen a change in paradigm for the EU. There has been a notable shift away from a Keynesian nation-state toward a Schumpetarian regime, which emphasises competitiveness, entrepreneurship, and labour flexibility as opposed to policies of corporatist class compromise, with the sole aim 'to transform the European Union into the most competitive … model' (Jessop 2008: 224). The crisis intensified this focus on competitiveness and altered the European model toward limiting the social state, increasing pressure on labour, and a promotion of "market-friendly" reform (Markantonatou 2013a: 23). There remains a constant tension between market-constraining institutions, such as social protection, and structural pressures that capitalists seek to achieve to overcome barriers to accumulation (Streeck 2010). The extent of liberalization, however, has varied across Europe and been less prevalent in the periphery, resulting in 'variegated neoliberalism' (Macartney 2011), ensuring that the crisis represented the prime opportunity for capitalists to complete the process. Consequently, market confidence became the pillar of policy-making and reveals why the Greek state was left with no choice in agreeing to austerity measures as specifically noted by Papandreou in 2012: 'We can no longer patch things up … We have to make major decisions, which are to create the market confidence.'

The crisis highlighted the fragilities of EMU and made urgent the need to address negative spillovers from the economic sphere into the monetary with the implementation of coordinated fiscal and macroeconomic supervision. (Bongart and Torres 2016: 46). These developments sought to ensure the survival of EMU while providing effective regulatory and supervisory tools to hopefully prevent future crises; however, advances on an integrated economic framework remained limited (Mongelli et al. 2015). It has been recognized that economic integration is necessary, particularly to promote structural reforms leading to the creation of a genuine EMU, however, the measures suggested have not gathered sufficient political support across Europe and Greece and Italy have not taken general political ownership over their agendas. As such, developments have been largely dictated by market pressure, and been slow and incremental in fashion – predominantly due to the conflict that emerged between solidarity on the one hand, and systemic reasons and national interests on the other (Bonchart 2011).

Still, labour market flexibility was the continuation of a reform agenda previously adopted. The theoretical base for these arguments are intrinsically linked to Optimum Currency Area theory, whereby the EMU as a currency area – albeit not fitting the criteria – would benefit from enhanced labour market flexibility (Monastiriotis and Zartaloudis 2010). All peripheral nations initially adopted a similar approach in the crisis, ‘because this repertoire was available, had already been partly tried before the crisis, and no alternative was in sight’ (Sotiropoulos 2015: 242). This process was cemented by the “there is no alternative” (TINA) belief as well as heavily pushed by the media, whom exhaustively pushed the understanding of austerity “necessity” to address home-grown issues of debt and unsustainability derived from traditional issues of corruption (Cuhna 2015). This was certainly eased, and even enabled, by the “reform-induced crisis hypothesis” that considers the public perception of the need of reforms (Williamson 1994). The continued emphasis on austerity by the media, EU, and international markets, inferred legitimacy for the program by creating a common perspective that austerity was essential to address financial imbalances.

However, the neofunctionalist logic of an automatic relationship hides the reality of an ongoing power struggle at a domestic and transnational level between competing socio-economic interests. A continuation of labour market flexibility may be perceived as a victory for capitalist interest vis-à-vis organized labour, as a means of restoring competitiveness. This was facilitated by the progressive weakening of labour organizations by direct supranational pressure of a constitutionalist programme at an EU level and supported by EU institutions and the establishment of a neo-liberal paradigm (Talani 2017: 212).

Central to ensuring implementation is the concerning de-democratization of national economic policymaking through a realignment of power around the centrality of the ECB, in order to preserve the neoliberal character of the EU (Mezzadra and Negri 2014; Kennedy 2016). A recent paper by the ECB specifically described labour market flexibility as being 'a key ingredient for a solid economic recovery in euro area economies' (ECB 2012: 10). Crisis-induced supranationalization attempted to depoliticize sensitive labour market reforms and ensure implementation, through utilizing a top-down disciplinarian governance structure that utilizes conditionality with attached measures coupled with significant international market pressure (Nicolaidis and Watson 2015; Kennedy 2016). It has been seen as the solution to overcoming politicization and a lack of trust, but instead may have only worsened the situation. For instance, 'policymakers are seeking 'external' support to mitigate the doubts of pressure groups… to implement unpopular reforms' (Zmas 2015); it has also been observed that there has been a frequent use of 'emergency powers' by the government to bypass parliament and legislate through presidential or ministerial decrees (Petmesidou and Glatzer 2015: 178); while it has been argued due to a lack of trust Greece will require help from international institutions to implement reform for longer than the prescribed three years signed in 2015 (European Commission 2015; Ioannides and Pissarides 2016: 363-364). Likewise, in Italy it has been argued that the state has utilized the demands of the ECB as an expedient to implement reforms that have been traditionally restricted by domestic opposition

(Sacchi 2013; Picot and Tassinari 2014: 18). This both highlights that international pressure was initially essential to ensuring reform, but also how prevalent societal interests were that this was necessary.

Theoretically, there are explanations both from neofunctionalism and intergovernmentalism, which show how intergovernmental negotiations are embedded within a broader, path-dependent supranational development of integration. The above process is consistent with a neofunctionalist account of crisis management. In that, the crisis drove core mechanisms of change through the functional dissonance that emerged: specifically, the need to address the incomplete architecture of the EMU. Functional spillover was clear and shaped political discourse, while supranational institutions became extremely influential actors in dictating the integrative agenda, as interest's groups favouring economic integration supported such action (Niemann and Ioannou 2015). Within this, however, liberal intergovernmentalism also proposes a powerful explanation, particularly reflecting the prevalence of influential states in the application of austerity and negotiate on the basis of interdependence and preferences. Austerity may clearly reflect the interests of solvent Northern states that look to shift the burden of adjustment to the periphery, limiting the financial implications attached to bailouts. The intergovernmental bargaining does support this, as the periphery clearly favoured financial support; while the Commission advocated supranational reform solutions; however, the resulting measures were aligned firmly with the preferences of Germany and its allies (Schimmelfennig 2012). Even though Germany reluctantly agreed to bailout the periphery, the terms were those that Germany favoured. This latter consideration potentially indicates why labour market flexibility has pertained and structural reforms in other areas have stagnated, since financial compensation and stability was the highest priority for the Northern states as opposed to improving long-run structural growth potential. This has resulted in a return to nationalism across Europe that threatens the future of European integration and resulted in a rational self-interest approach to international bargaining.

While it is clear that austerity was a key reason for states choosing labour flexibility, since it is a supply-side intervention that does not affect the fiscal stance, the core question remains as to why austerity was implemented given that the Euro-zone crisis was not a fiscal crisis. This refers back to the debate previously constructed in this paper that suggests the crisis has been misdiagnosed as a problem of deteriorating unit-labour cost competitiveness or issues of fiscal profligacy, or a combination of both (Storm and Naastepad 2015). In this instance, austerity should restore cost competitiveness and revive growth, through exports, whilst undertaking fiscal consolidation. Fiscal imbalances were a passive response to falling private spending and failing private debt; whilst policy makers and investors displayed an asymmetric response to private and public sector deficit spending – in part due to the fatal conceit of neoliberalism (Parenteau 2013). Consequently, the fatal flaws of the Eurozone contributed to inherent asymmetric problems, which became a major cause of the crisis; but, the misdiagnosis of the crisis resulted in the wrong remedy of austerity (De Grauwe 2013; Parenteau 2013; Storm and Nasstepad 2015).

Nevertheless, this process forced states to comply with austerity for access to the financial markets, which may have generated a negative debt cycle that necessitates further austerity. Labour market flexibility has been legitimized through the logic to address the competitiveness gap that exists due to overregulation. Yet, it has been empirically shown that unit labour cost, which stands at the forefront of austerity, is not a contributing factor to competitiveness and growth in the periphery, while excessive state spending also was not a key factor in the Eurozone crisis; on the contrary, internal devaluation is severely harming these nations capability to recover and thus impacts on the potential for additional future reforms (Storm and Naastepad 2015). It was portrayed as a necessary "evil," ignoring the fact it was adding downward pressure to already struggling domestic demand and creating calamitous economic problems for crisis-stricken nations (Alexiou and Nellis 2013).

At the same time, the pre-established institutional context is crucial for austerity outcomes in the labour market (Tsampra and Sklias 2015). Structural weaknesses in the labour market, as in segmentation and unequal opportunities and rights for priveldged workers, as well as poor and uneven social security rights, are not applicable with flexicurity policies. Flexibilization is increasing inequality and further segmenting labour markets, at the expense of typical employment. Employment security is of critical importance in crisis situations, even if it is unable to dampen unemployment effects for the worst cases. The agenda of deregulation has not prevailed and has undermined any moderate policies, yet such programs have become institutionalized despite their lack of effectiveness.

To be sure, the bailouts have been necessary to prevent economic disaster, and austerity may be essential to consolidate in certain situations; however, the lack of direction aside from labour market flexibility is concerning, as well as the continuing pressure for further flexibility. It also links back to why austerity has pertained, since internal devaluation is counterproductive, suppresses growth, and in a recession will push nations further into debt – thus creating a vicious self-fulfilling cycle where countries need to implement further austerity in order to address fiscal imbalances (Armingeon and Baccaro 2012).

Again, a more cynical perspective may consider austerity as being in the favour of powerful European interests. This class logic depicts austerity as a means of manufacturing conditions to aid redistribution from labour to capital (Burgman 2016: 240). Autonomism Marxism recognizes the paradox that exists within political economy, whereby capital continually strives to enhance its position, given the power of capital and the subordination of labour, yet capital is ultimately dependent on labour and thus the struggles of labour shapes world-economic political processes (Burgmann 2016: 240; Silver 2003). It is perceived as a necessity in order to embed neoliberalism in Greece, given the failure of competitive corporatism to subordinate labour to the dictates of neoliberal competitiveness (Kennedy 2016). It is this logic that presents a strong correlation with the findings of this paper, whereby the employers have been dramatically empowered and able to embed their interests vis-à-vis a dismantling of collective bargaining.

A class analytics of austerity demonstrates this exact point: ‘the votes of speculators in financial markets carry more weight in determining economic and employment policy and outcomes than do those of the electorate. In this context, the only clear beneficiaries of austerity are financial speculators, with their proven ability to hold governments to ransom’ (Konzelman 2014). It has been argued the overall objective of supranational pressure has been to ‘drive down labour costs and strengthen the power of capital vis-à-vis labour’ (Kennedy 2016). Primarily, it is clear that these measures have focussed on limiting negative spill overs and mitigate the feedback loop from weak banks and over-indebted nations (Bongardt and Torres 2016: 46). As was highlighted by the interviews, given prior failings with structural reform the crisis provided an opportunity to finally subordinate labour to the dictates of neoliberal competitiveness (e.g. Misir 2011; Fraser et al. 2013; Storm and Naastepad 2015): ‘to finish the neoliberal modernizing project in terms of reducing wages and pensions, dismantling labour protection, and undertaking an even more radical program of privatization’ (Laskos and Tsakalatos 2013: 103).

Indeed, Urie (2015) argues the neoliberal project is generating radical movements, particularly since ‘austerity is gangster economics intended to pay off creditors no matter how destructive the consequences.’ In an era of global financial neoliberalism, the austerity remedy sheds light on a number of critical features: it indicates the interdependency of European economies; demonstrates rivalries and competitiveness among different fractions of capital; undermines the perception of Europe as a community of common interests; but most of all stresses the struggles of applying neoliberal ideals worldwide, emphasising how they translate to 'class struggles as competitions between national capitalisms' (Markantonatou 2013b: 21).

Even further, there are arguments that France and Germany have handled the crisis with a self-interest approach that has exacerbated conditions and underlined why austerity has been applied (Galbraith 2016; Varoufakis 2016). A central pillar of this approach has an attempt to preserve and protect both French and German banks, both of which were vulnerable to the emerging crisis; whilst, they also loathed accepting responsibility for misguided private investors or design flaws of EMU and to avoid asking national governments to bailout domestic banks, so they formed a "creditors cartel." This approach has certainly helped Germany, whom not only were relatively unaffected but have benefitted from lower interest rates and higher growth, which has depressed export costs, resulting in a larger real trade surplus than China (Moravcsik 2016). Firstly, German bunds profited from a "flight to safety" by investors; while secondly, there was a near "optimal" monetary policy for Germany throughout the pre-crisis period and even during the crisis – with calculations suggesting that the German sovereign saved more than 100 billion Euros in interest expenses between 2010 and mid-2015 (Dany et al. 2015). This certainly adds an ideational characteristic, whereby it is as much the negative connotations attached to such measures, as much as the actual consequences that generated politicization. In fact, it has been argued that German dominance underlines the divergence problem (Moravcsik,2012; Blyth and Matthjis 2011; Rodrik 2010): 'Germany has not succeeded in producing a broad consensus of interests and preferences around its own, and it is not at all clear whether the German government is willing to use its power to sustain the euro on terms that are agreeable within the contours of German domestic politics let alone to anyone else' (Thompson 2013: 2).

Derived from the processes, therefore, are certainly questions of a democratic disconnect, legitimacy and accountability, while the ineffectiveness and counterproductive nature of intervention raises alternative issues of social justice. Executive dominance has been dramatically enhanced, acquiring features of uneven relations between national governments within intergovernmental institutions, depicting a movement from a consensual process to a coercive environment given the redistribution of power and creation of institutionalizing hierarchical relations between national governments within relevant supranational decision-making structures. Indirect legitimacy is not enough to justify decisions undertaken on behalf of the union, which is exactly why this is contributing to growing resilience in domestic politics and widening cleavages within the EU between states.

However, it is critical to note the failings in this approach. It appears that the capitalist class has dramatically over-estimated the potential of labour market flexibility to improve economic possibilities, indicating the severe weakness in addressing the crisis solely with supply-side measures. Equally, it has been argued that there has been too much emphasis placed upon labour market flexibility, and that not only does such a policy often not account for the particular features of capitalist structures but also may lead to a deteriorating economic capacity and reduced capacity to innovate (Tsipouri et al. 2007). Further, and most telling, is that if there are not social trade-offs in place, and if it triggers social resistance, then it is highly likely to be counterproductive (Ibid).

Given this understanding, there certainly remains a question of sustainability of this process as socioeconomic fundamentals continue to decline in Greece. Empirically, it has been demonstrated that the reform agenda imposed upon Greece is counterproductive, resulting in increasing poverty, inequality, and declining living conditions. Both Greece and Italy possess familial welfare systems, whereby the dismantling of social protection has created “vicious competition” for limited liquidity as the basic welfare functioning of the state has been undermined (Papadopolous and Roumpakis 2013: 211). Thus, aforementioned, austerity and labour market flexibility have failed but the neoliberal agenda continues to be imposed on Greece as arguments of poor compliance and implementation continue to justify the approach. Thus, in line with the crisis management processes, this has created a self-reinforcing process of intensifying politicization and societal resistance, raising the stakes of implementation, further limiting the potential for reform, but at the same time increasing supranational pressure.

The process of crisis management has been described as “failing forward” (Jones et al. 2015). The incomplete governance structure of the EMU has plagued policy-making as it has been shifted towards intergovernmental practices, which results in incompleteness since states are forced to settle on lowest common denominator solutions based on diverse preferences. This incompleteness leads to further crises and further incomplete solutions. Such incremental reform and policy failures generates greater divisive political ruptures seen through extensive politicization and created a dangerous situation for the future of EU integration, whilst underpinning the dramatic polarization of political systems and nationalistic attitudes. Based on these processes, it is clearly observable that politicization has occurred on the back of issues of democracy, legitimacy, and subsequently social justice. This strong development permeates the decision-making structure given the intergovernmental setting of policy-making, but remains powerful even in spite of attempts to isolate policy-making from societal considerations. The consequential developments, through failed referendums and extreme electoral results, indicates the prevalence of politicization and the distrust that has emerged for both domestic and supranational institutions and challenged the importance of international pressure for securing reform – as the public has lost faith in the EU's management capability. It is clear, therefore, that despite critiques – such as Schimmelfennig (2014) – politicization is a driving force for policy-outcomes in the crisis and that postfunctionalism holds significant weight in explaining developments.

5.6 Comparative Analysis

This section provides a comparative analysis of the findings. The work discusses the dramatic rise of politicization and declining trust, and how domestic considerations may still play a critical role in policy-making in these societies. Strongly linked to this is that labour market flexibility could have been the preferential option of the states to satisfy clientelist relations, since these measures are predominantly short-sighted and targeted. The evidence suggests that much of the impact of internal devaluation has been subjected to outsiders of these systems, and that the labour markets have been recalibrated as opposed to liberalized – which is the preference of the EU. These are great strides, to be sure, but still reflect the influence of domestic political considerations on government preference formation.

It is crucial to recognize that the role of the state has been redefined during the crisis, whereby the state has become a key major industrial relations actor. This draws back to the importance of state sovereignty in managing the crisis, as the Greek state has been subverted to the will of supranational pressure, which urged a neoliberal direction for industrial relations, and as a consequence it has been observed that this approach has 'submerged the country in deep recession, destroyed the institutional framework of labour relations and corroded the social fabric… [and] the social dialogue institutions has been gravely damaged and its consensus-building potential disregarded at a time when it is most crucially needed'

(Lanara 2012: 8). The Italian state, however, has retained sovereignty, and sought to preserve collective bargaining structures to a certain extent, a process aided by somewhat cooperative and reactive social partners.

It has become recognized that processes of Europeanization, like issues of labour market reform and austerity, are mediated by domestic institutional settings (Featherstone and Kazamias 2001; Cowles et al. 2001). Social capital is integral to the process, as social dialogue brings this to the fore. Social capital frames the project of reform, limited by traditions of powerful sectoral interests, non-cooperation, and state intervention. It is on this basis that Greece and Italy have been found to lag with regards to necessary structural reform, and thus on this basis that international intervention justified the active undermining of domestic political actors through the removal of an industrial framework that had entrenched these vested interests and permeated decision-making structures, and so enhancing the prospect of the neoliberal project.

To build upon this, it is possible to theoretically assess the response of states to the crisis by utilizing Grazier's (2009) conceptualization of the impact of the crisis. Firstly, the *shock* effect – which may be identified by the fact that decisions made were against the well-established norms and institutions of collective bargaining and that were accepted and supported by the majority of stakeholders. In Greece, this was more than apparent, as the system was entirely undermined signified by the abolition of the favourability principle in the hierarchy of collective agreements, a policy put forth by the Troika but supported by the employers and the state; whilst, in the early stages this also occurred in Italy, whereby Italian legislation was passed that provided scope for derogations from statutory standards. Secondly, the *revelation* effect, this refers to a broader affinity of labour market reform and industrial relations context prior to the crisis. Changes in the system of inter-sectoral agreements represents this in Greece, with strong evidence of support for the employers' in this aspect. Finally, the *acceleration* effect, which refers to a direct relationship between measures and the industrial relations context and approach of actors prior to the crisis. It is this area where the employers feature most prominently. For Greece, there is strong evidence derived from the relaxation of rules on individual and collective dismissals. Likewise, in Italy, there was now the opportunity to build upon the path of reform that it had begun prior to the crisis, noting an increase in the pace and intensity of change. The key point of note is that there has been a clear divergence in the path of reform, with Greece often following stricter deregulation, with certain indicators of continuing dualization; whilst Italy began adopting a type of liberalization labelled embedded flexibilization.

Therefore, in Italy evidence indicates that labour market flexibility has resulted in means of embedding flexibilization, through a promotion of flexibilization in terms of coordination; and embedding in terms of coverage, yet dualisms still persisted (Picot and Tassanari 2014: 25; Picot and Tassanari 2017: 477). Reconstructions of the negotiation process enabled the unions to retain insider-influence in the policy process, a crucial characteristic since their links to the centre-left Democratic Party (PD) were essential for Monti's parliamentary majority, while Monti clearly acknowledged the fact that PD pressed for the dilution of labour market flexibility reforms, given their close links to the unions (Sacchi 2013a; Sacchi 2013b; De Geus et al. 2016). This presents a convergence of position, whereby the formal union resistance to labour market reform is compounded by public opposition and thus considerably raises the stakes of implementation. It shows that the unions did have the capability to influence policy decisions to a certain extent. Given this process, some have argued that due to these influences, there has been a continuation of dualization in Italy (Bentolila et al. 2012; Dubin 2012). Dualization persists as structural reforms have been targeted on “outsiders” (i.e. non-standard workers and the unemployed), again which should leave protection for insiders relatively stable. There is certain evidence to support this, for instance when the Monti administration weakened protection for workers on open-ended contracts, the legislation did not affect workers in small firms nor most atypical contracts. The heart of this approach stresses that left parties and the unions formalized an effective veto block and shifts the costs of structural reform to outsiders (Rueda 2012).

However, under Renzi this changed, whereby the Jobs Act took the Fornero reforms further, indicating Italy’s greatest stride towards liberalization. Utilizing the perspective of Amable and Palombarini (2014) it is argued that the reforms could have been an active attempt of PD to consolidate a new social base, rather than merely being a necessary adaptation in the modern EMU. By decreasing EPL for insiders, and systematically increasing coverage for outsiders, it is possible that the strategy is aiming to acquire support from a class that prefers a redistributive welfare state but not traditional protectionist policy (Hausermann et al. 2015). This new group has also displayed impressive mobilization action that are not affiliated to big trade union confederations, such as the May Day Parade; the Intelligence Precaria; Chain Workers; Serpica Naro, all representing protest and political resistance initiatives based on informal networks (Kretsos 2013). Thus, there appears to be sufficient interests embedded that will resist dualization pressures and seek to embed flexibilization. The failure of the Left or the Right to effectively solve the crisis had generated powerful social uprisings and a political crisis, while the neoliberal rupture of Berlusconi failed because it did not account for the precarious classes. The emergence of a *bloc bourgeois* necessitates change in the political space to one that accounts for a compromise between their interests, despite operating as a minority within society (Amable and Palombarini 2014: 212).

The importance of domestic politics draws the state away from deregulation towards a process of embedding flexibilization. While it is argued that these countries need neoliberal structural reform, the political cost of implementation is too high (Amable and Palombarini 2014: 177). Indeed, two telling quotes highlight this exact issue: '[sweeping deregulation] would not have been viable politically, given the opposition by at least one of the trade unions (CGIL, the most representative one) and by the party closest to it (the Democratic Party).' (Fornero 2013). Equally, Monti complained of 'big political problems in public opinion if these beneficial responses do not materialize… [I]f… you do the right policies but you don't get the recognition, there may be a backlash against the right policies and the coming up of political forces that, of course, oppose the right policies.' The truth in these statements note the need to find an alternate social base that provides support and political stability to implement necessary change. It is readily acknowledged that the unions have held an unhealthy political power in Italian history, which triggered a process of decentralization to limit this; whilst, liberalization and increasing flexibility, by nature, favour decentralized decision-making processes, limiting the role of the unions. Thus, following a failure of depoliticization, it was the only solution remaining as a continuation of economic decline to appease patronage links combined with a growing sector of "outsiders" that were becoming more active was not politically sustainable.

At the same time, Mario Monti points out that the protection of workers in particular has been a key contentious topic in Italian political economy for decades. It was, therefore, essential that reform packages provided some degree of protection as a compromise for increasing flexibility (De Geus et al. 2016: 180). It also aided the success of the reforms that in recent years the unions have begun to change their stance on the labour market following accession to EMU, realising the potential benefits of liberalization so there has been piecemeal change to the labour market. The conclusion drawn from this indicates that there was the necessary environment to finally enact change, but the power of key domestic political actors – in the unions and public opinion – generated sufficient opposition to limit the overall scope of these reforms, in light of the demands and pressure of the EU. However, they did not have the power to prevent reform, only refocus it to a certain degree, thus where policy mattered most the evidence shows that it has been the employers that display the greatest influence.

On the other hand, the structural reforms in Greece were particularly extreme, as the shift in regulatory framework from the pre-crisis legal model of collective bargaining was transformed to a path towards that of a model of absent or single-employer bargaining – akin to that of the UK (Schulten and Muller 2014). Greece has abolished the favourability principle, suspended the extension of collective agreements, introduction non-union representatives at a company level (which may conclude company-level agreements) and reduced the after-effect of collective agreements, all of which could decollectivize labour relations (Koukiadaki and Grimshaw 2017: 25). The new regulatory boundaries points towards one of state and managerial unilateralism, generating a new relationship for industrial relations actors and their role within the collective bargaining system.

Greece appears to conform to what Thelen (2014) calls deregulation, a process conforming to the traditional literature of labour market reforms under austerity. In essence, there has been a dramatic de-centralization of collective bargaining, a deregulation of employment protection, and higher internal flexibility for employers. This has distorted labour law that was intended to protect the weakest, since the policies ignore the specificities and idiosyncrasies of the Mediterranean capitalist model, possibly transforming the system into a dysfunctional Liberal Market Economy. The stark difference has been a strong resistance of implementation, that has seen Greece criticized extensively for limited and delayed implementation and a lack of accompanying long-term structural reform (Afonso 2015; Liargovas 2014; Exadaktylos 2013; Monastiriotis 2013; Terzi 2015; Aslund 2015; Blanchard 2015).

While the developments in collective bargaining are consistent with a culture in Greece of unilateralism in policy-making; it is a departure from political economy crisis response whereby industrial relations play a crucial role, towards a more financial markets approach (Ghellab and Papadakis 2011). It is assumed that public policy responses are founded on the situation in the financial market, best epitomized in 2011 talks whereby employment was rarely discussed by the Greek government and Troika. The lack of concertation is problematic since it promotes an information deficit for the government in policy-making, denying critical information in effective policy design and may hinder implementation as well as maintaining balance for adverse effects against vulnerable groups (Ghellab and Papadakis 2011; see also Patra 2012).

Greece responded to supranational pressures for reform by a clear recalibration of the welfare state and labour market. The evidence demonstrates that Greece undertook deep cuts in protection for regular workers, while protection for collective dismissal remained relatively consistent (Moreira et al. 2015: 215). In essence, it is perceived that some of the most impactful measures introduced were not intended to affect the security of regular workers, rather rebalancing the system by providing additional unemployment protection to groups not previously covered. Therefore, although unemployment protection was reduced for regular workers, access to unemployment benefit was not reduced (Ibid. 216), thus reflecting a process of recalibration rather than liberalization.

Predominantly, however, the process initiated by the Troika has progressed relatively unchecked, insomuch that deregulation and liberalization processes have occurred almost as intended in spite of severe pressure from the unions and public opinion. Part of the issue was that this was a self-reinforcing process, whereby the signing of the Memorandum altered the existing structure of labour market institutions and paved the way for further deregulation, however, there were other notable characteristics at play that contributed to this divergence, whereby Italy was able to steer clear of outright deregulation: such as, the relative power of the unions and employers, the extent of politicization, state autonomy, ownership of reform, and political willpower. In comparison, Italian path of liberalization has diverged to one representing embedded flexibilization, while the Greek case remained on course for deregulation albeit with poor implementation and with a lack of long-term structural reform. Implementation has been higher, and some of the reforms more extensive and comprehensive, but the path certainly different for Italy.

Thus, the clear feature illustrated by this research has been the advances made by business interests against the will of the public in many instances, as well as the unions. Yet, beneath this, the paper does demonstrate a case for the continuation and growth of power for the unions, against the trend of research that suggests the demise of the unions, an argument to be elaborated upon in the following section (e.g. Culpepper and Regan 2014). This trend continues to grow in line with limited progress on the basis of the neoliberal paradigm. In Italy, it has been discussed that they have maintained organizational strength and have adapted to the challenges of the crisis, offering cooperation in search of crisis resolutions. Whereas in Greece, the unions have faced even greater challenges in society, but in recent times have sought alternative strategies of influence, as well as utilizing their powerbase electorally. It appears that in both cases, the demise of the left has not yet occurred, and there are signs that these organizations are slowly adapting to a new role in their reformed industrial systems: whereby they must incorporate Europe into their core policies but also ensure they are able to develop effective and feasible alternatives, enabling them to become a ‘constructive veto wielder’ (Urban 2012). As Culpepper and Regan (2014) rightly cite, there appears to be a death of social pacts, but this does not necessarily imply the demise of the unions; on the contrary, it appears that the social partners are adapting to a redesigned social dialogue, on a more structured basis (Colombo and Regalia 2016: 308).

5.61 Domestic Political Factors

Thus, the section below shall evaluate the relative role of domestic political factors, considering the power of the unions in each state, the role of the employers, and the significance of politicization. It shall then look at a further key difference between the cases, the autonomy of the state in crisis management. It is demonstrated that the fact that Italy had ownership of the agenda provided a consensual atmosphere that allowed the state to incorporate the social partners in reform discussions, but also act unilaterally if necessary. Furthermore, this process aided in mitigating the impact of politicization as international intervention was avoided, and Italy was able to successfully formalize policy that would appreciate the idiosyncrasies of its political economy.

In Italy, flexibilization has been applied; but, equally there has been the improvement to protection for workers at the margin to support this. This process breaks from the traditional path of labour market reform in many Southern, Continental, and Central European states – which previously had undertaken deregulation, but utilizing a process that facilitated non-standard employment and not affecting permanent employment. The measures since the crisis in Italy did directly impose on the dualized system that also affects labour market “insiders.” The consequence of this Italian process has been a “corporatization” of national collective bargaining and the creation of a more flexible labour market, in response to employers’ demands (Recchia 2016).

The power of the employers' associations has been one of the distinctive features of the crisis between Greece and Italy. Talani (2014) argues that there has been a 'strengthening the institutional power of transnational capitalist elites vis-à-vis organised labour in the shift from the national to the European level of governance' that is preferential to employers' associations given the prominent divides that exist amongst the unions and the disaggregated nature of globalised capitalist structure. Both the weakness of the unions in each country and the alignment of neoliberal ideals have been critical for the employers. Thus, supranational interests were preferable for the employers as they urged a direction consistent with their agendas. This is supported if the paper considers the core framework of Schirm: in terms of relative power, the employers had access and an aligned neoliberal agenda; secondly, they were institutionally embedded as the decentralization of collective bargaining strengthened employers over employees; finally, as policy outcomes demonstrate, the employers were generally concerned with relative gains.

In Greece, the deregulation of wage setting has been a major turning-point, since the dismantling of collective bargaining and downward pressure on wage floors has resulted in the individualization of wage bargaining, which in a period of mass unemployment, is equivalent to unilateral wage determination by firms (Whitehead 2015). In fact, this process has only furthered the influence on the employers by disincentivising collective bargaining: firstly, the employers' organizations have no interest in collective bargaining due to their unilateral power to impose wages after the expiration of or renunciation of collective agreements, while the lowered wage floor provides a better likelihood of low individual wage conclusions; secondly, there is little scope for bona fide agreements since the unions have no influence to exert their right to collective bargaining; and finally, there is no negotiating balance between parties, since recourse to arbitration is only possible after an agreement between parties, whilst arbitration can only impact basic wages (Ibid: 38). The key point of note is that this development is not consistent with the long-term trend of reform in Greece, instead it is a marked divergence of approach that specifically aimed at deconstructing the multi-level structure of bargaining system (Koukidaki and Kokkinou 2016: 195).

Whilst, in Italy, there was a notable decline in tripartite concertation but the social partners maintained prominent roles in the politic economic arena, as did the state which assumed an increased role in proceedings (Colombo and Regalia 2015). Although the state has acted unilaterally, by implementing regulations with automatic effect, this has not diminished the role of the social partners, on the contrary, it has sought to relaunch collective bargaining and foster increased responsibility. A stark difference in the case of Italy has been the willingness for cooperation, as both the unions and employers' associations search for jointly agreed solutions to overcome problems that continue to exist. They have regular complaints about both the complete absence of industrial policy, and tendency of successive governments to readjust labour market policy of the previous administration; whilst also, displaying significant concerns about the uncertainty of the situation (Colombo and Regalia 2016: 312).

Even further, despite supranational and public pressure for a decentralization of collective bargaining at the central-level, even the employers were not unified in their desire for this – with Confindustria, for instance, noting the positive role played by sectoral agreements. Thus, the continuing strong organizational strength of the unions, combined with continuing prominent collective bargaining structure, and a willingness of the employers to engage in dialogue with the unions, have seen a marked divergence from the case of Greece. The qualification, however, is that there they have thus far struggled to formalize a wide-ranging strategy with greater integration and visibility. The result is a frequent underutilization of the unions potential capacity.

Moreover, the crisis situation in itself presented a unique challenge to unions in both countries. Faced with a neoliberal onslaught, and the aggressive rhetoric of emergency, both states have been able to utilize the “alibi” of the crisis to overcome intermediate bodies and tired rituals vis-à-vis a combination of a neo-populist and technocratic approach (Leonardi 2017: 22). As evaluated for Greece, it has been the active attempts of the Troika to dismantle collective bargaining and exclude the unions from concertation that has most hindered their influence. Whilst, in Italy, the unions have attempted to adapt: CISL and UIL have followed a pragmatic approach, showing a willingness to cooperate and signed numerous agreements with centre-right governments; CGIL, on the other hand, began carefully about conflicting with centre-left governments, thus leading to accusations of cautiousness during the Monti administration, but have since met the Renzi government with tense relations given the lack of a pro-labour and friendlier approach by the state to unions (Ibid).

It may be observed, however, that the Italian unions have been more effective during this period. The overall picture that emerges from the crisis for Italy is one of resilient trade unionism, as they have successfully resisted the onslaught of the crisis (Leonardi 2017). The Italian unions maintain significant power resources, being able to mobilize extensively given high consistent coverage amongst workers and non-workers. Notably, there is a particularly high quote of pensioners, which provide critical mass, since this is a great source of financial, experience, and pure numbers power. Equally, unlike Greece, the unions have made comprehensive strides to adapt to new challenges of atypical work, expanding the scope of their reach to “outsiders” and while there is a long way to go, it has made a fundamental impact to their power (Ibid).

Perhaps more importantly, however, is the stark difference of collective bargaining in Italy from Greece, which remains very high and persists with extension mechanisms. This is founded firstly on the relevance of the unions in society and to the industrial system, but also predominantly on continuing legal and constitutional support. In this scenario, industry-wide agreements become a threshold of reference to establish a dignified and sufficient wage (Ibid: 102). Aiding the cause of industry-wide agreements have been the employers support, given that they provide a framework in an economic system consisting of largely small and micro-enterprises, thus limiting social dumping, wild forms of competition, and transnational and conflictual costs of company bargaining.

On the legal side as well, there is a clear structure for the unions. They have sustained freedom of action, and numerous key rights in the workplace, but also a system that deducts membership fees as a proportion of wages paid by the employer to the unions. The social partners also have prerogatives in the areas of tax, legal assistance, and welfare. This is important for providing a better overview of unions capabilities and offerings, also granting a degree of autonomy and relevance outside that of collective bargaining.

The institutional framework of the Italian system also explains the success. Insomuch that, there exists a plurality of identities within the union system, which has weakened the union movement to some extent, but on the other hand has provided a broader outreach and involves a wider range of workers; unlike other states, whereby unions are traditionally identified with at most two political cleavages. Subsequently, this has empowered the unions strategically and provided the ability to be revitalized through reform. Greater competition has been beneficial as it has encouraged an emphasis on improving membership, promoted mutual learning, ensured cooperation where there is institutional support or a strong monopoly of worker representation.

Not only this, but unlike their Greek counterparts, there appears signs of change in the Italian union system. Firstly, the confederations joint document seeks ways to further increase the inclusiveness of collective bargaining, recognizing the rising levels of temporary or free-lance workers, as well as a ‘new generation’ of trained, smart workers (Ambra 2013, 2015). It also finds an organic understanding of worker representation and questions the established forms, possibly providing a bottom-up overhaul of worker representation that could lead to both the revitalization of trade unionism and ensure stability in industrial relations. Secondly, there has been a perspective review of the articulation of collective bargaining structures. There has been a vision to overcome the conflict between controlled decentralization of intersectoral agreements, the disorganized decentralization of legislation, and a multidimensional second level of bargaining that is not just for company level. These changes would dramatically improve inter-company cooperation, by sitting between the company and territorial level, and crossing different sectors, entails a different set of rules and guarantees (Salvatore 2015; Bavaro and Laforgia 2014; Zoppoli 2014).

Indeed, it has been vital for the unions that they have sought coordination that complements parallel sectoral and territorial and company bargaining (Recchia 2016). In doing so, they have found a convergence of position with the employers’ and looks at the subjects of collective bargaining, together outlining a viable path to restore Italian competitiveness that utilizes research, training, investment and innovation; rather than cutting labour costs. It is recognized; however, this requires an effective binding system of rules and consensus building. It has been shown that in Italy, in spite of lasting divides, there has been consistent evidence of employers and unions overcoming conflicts to promote cooperation; whilst, the Greek unions continue to display persistent ideological cleavages that hinder a coordinated sectoral approach (Kornelakis 2015). The Italian unions have provided viable solutions and sought cooperation, generating greater credibility and trust moving forward.

This consensual approach is best epitomized by the fact that in certain circumstances, pressures have been mitigated by joint initiatives by the social partners. In 2012, the government attempted to reform the regulatory framework of collective bargaining, Article 8 of Law 148/2011. In response, the social partners committed to an inter-sectoral agreement on productivity, which outlined the full derogatory potential of decentralized bargaining as well as assigning full autonomy to second-level agreements on specific but important topics (Koukidaki et al. 2017). Similarly, Italy has been far more successful in overcoming dualization, as illustrated by Kornelakis (2015): for instance, with regards to reform of telecommunications, collective bargaining was successful centralized in Italy and thus there was an inclusion of “outisders”; whereas, in Greece bargaining centralization failed and resulted in intensified dualization. This highlights the importance of cooperation of both employers and unions to build encompassing institutions.

Yet, most importantly for Italy has been the willingness of parties to renew pre-existing agreements at a national level. There has been an active attempt to sustain collective bargaining dialogue and practices at an inter-sectoral level, which also ensured a sound framework for bargaining at lower levels, possibly impacting the application of reform. As highlighted by Colombo and Regalia (2016), inter-sectoral agreements were critical in 2014 whereby it introduced rules specifying the minimum requirements for unions to participate in bargaining and on the effectiveness of agreements when reached, while also outlining sanctions for negotiations and industrial actions when the agreements were not upheld. It has been stated that Italy provides the clearest example of such action over the years of the crisis, ensuring that societal actors maintained a positive role in the policy-process and continued their central relevance in political economy (Koukidaki et al. 2017).

To be sure, the oversight of Greece meant that the Troika had control in the dismantling of Greece's collective bargaining system, while excluding them from concertation, which severely impacted on their influence. Even when SYRIZA attempted to restore collective bargaining, that was overruled by the Troika with Law 4336/2015 by stressing Greek authorities should 'undertake rigorous reviews and modernization of collective bargaining, industrial action and, in line with the relevant EU directive and best practice, collective dismissals' (European Council 2015). Similarly, the unions were forced to take the position of avoiding the worst-case scenario i.e. a complete abolition of collective agreements, rather than anything more preferable, and the results may indicate success in such a light, as outlined in an interview with Ms. Anna Stratinaki [Former Minister of Labour] (Dedoussopoulos et al. 2013). At the same time, the social partners have at times indicated a willingness for cooperation as a sign to support collective bargaining despite the restrictive legal framework – such as when SEV signed the revised national collective agreement in 2014 following pressure from the social partners (Koukiadaki and Kokkinou 2016).

However, even prior to the crisis the unions had struggled for influence. Their traditional confrontational nature had always been seen in a negative light, combined with their comparatively low density and their lack of representativeness outside their core constituency, trust in the unions was particularly low. This has not been helped by the continuation of largely conflictual relations within the Greek industrial system, despite elements of consensus beginning to emerge, a tradition that has long remain unaltered by changes in the external-environment (Venieris 2003: 137). This issue of non-cooperation in labour market reform in particular has long been highlighted, indicating that consensus-building in Greece is a fruitless endeavour (Featherstone 2003). These conflicts have politicized the unions massively, and due to this their legitimacy relied on state control

(Petmesidou 2000; Mavrogordatos 1998); however, in the current context state control has been removed from the unions and this has left them powerless in face of the neoliberal onslaught. This is also linked to another key failing, a limitation in the Europeanization of the unions: this ‘inadequacy of cognitive Europeanization in the presence of historical and institutional factors blocking the re-articulation of policy preferences along conciliatory lines and away from conflict-ridden understandings’ (Tsarouhas 2006: 15). Consequently, it was seen that the unions did virtually nothing to stop the process of austerity; nor, when called upon, did they offer any alternatives nor demonstrate any capacity to rise to the challenges of the crisis.

Nevertheless, as evaluated one key area where the unions retained a degree of influence was in their clientelist relations. The anecdotal evidence in the research chapter highlighted various key instances where this became apparent. Yet, it was in the election of SYRIZA where this legacy of linkages came to the forefront. Trade unions in Greece had always had strong ties to political parties, and the application of austerity under the two previous administrations had lost them a core support base (Afonso 2015). Throughout the crisis, the Greek movement was highly fragmented, gaining only partial political support at varying times. SYRIZA became the spearhead of these protests (Tsakatika and Eleftheriou 2013) helping converge the approach of the unions. The party became respected by forming strong links between antagonist unionsf, the trade unions, and social movements. In doing so, SYRIZA was effectively able to reinvent itself, portraying a new antagonist, anti-colonialist, inclusive discourse, one which attracted both the core mobilizations and expanded its electoral reach (Stavrakakis and Siomos 2016). With the unions backing, so SYRIZA became over-represented with disillusioned affected workers, providing a mandate for their anti-austerity, anti-Troika stance (Teperoglou et al. 2016). PASOK took a “responsible” position, but had relied heavily on clientelist linkages, which had now abandoned them. The emergence of SYRIZA, and the new direction that they took Greece, can therefore be heavily explained by the influence of the unions. It may have not been a direct impact on policy-making, but it still reflects that domestic politics still matters.

Ultimately, the fact of the matter is, predominantly the Greek unions, but also to a certain degree the Italian, have failed to meet the expectations of the public and found massive criticism levelled at them. The common critique levied is that the unions have been too accommodating, lacking an alternative vision, and thus unable to impede the gradual erosion of wages, job security, labour rights, welfare protection, and prospects for the emerging generation. While some urge for a more substantive and definitive sunset role for the unions in modern political economies; others would prefer a stronger rank-and-file approach (Whitehead 2015). Both of the critiques, however, neglect to fully appreciate the current political climate that the unions operate in: firstly, falling popularity is not synonymous with just unionism, but a range of representative institutions and intermediation; secondly, there is no uniform critique levelled at the unions – be it aimed at excessive conservatism or a failing of defending acquired right; thirdly, in the current crisis it is not just the unions that have been weakened, but all political actors. Nevertheless, empirical evidence indicates that the exclusion of the unions has been based on their declining legitimacy – neither can the unions threaten governments with protests nor can they offer any viable alternatives or problem-solving capacity, resulting in the fact that they represent a narrow interest-group rather than driving force in domestic politics (Culpepper and Regan 2014).

The fact is, the Greek reforms have been disjointed, short-sighted, and uneven; Italy, however, has far weaker clientelist relations and a more consensual domestic setting leading to a more even application of policy. Given the significant domestic resistance and extensive patronage-linkages, ‘the solution that these governments opted for was to transfer the risk, the cost and the responsibility of the economic crisis to the easy targets – the salaries working population and pensioners, in both the public and private sectors – and attack the main pillar of their socio-economic security – small private property – while keeping other sectors and practices protected’ (Papadopoulos and Roumpakis 2013: 211). Even though “insiders” may have seen an intense reduction in employment protection (Moreira et al. 2015); they continue to have access to generous benefits and higher pension when they retire. This conforms to the hypothesis that these domestic interests should permeate decision-making structures, which results in a “clientelist bias” to policies, even under pressing economic conditions and strong international pressure. The result is that ‘the nature of concessions to client groups is highly particularistic and fragmented. This means that clientelist bias can include economic policies that diffuse the cost of adjustment across the general population’ (Trantidis 2015). Both nations have implemented substantial reform, the targeted and short-term nature of certain measures reflects the continued prominence of politicization in particular: thus, labour market flexibility and austerity have been applied; but liberalisation and institutional reform stalled in the face of opposition (Culpepper 2014); Greece and Italy are unlikely to be reformed by a government that is not anchored to society by interest groups or political parties.

5.62 A Source of Divergence?

Aside from these prominent characteristics, the autonomy of the state in crisis management has been an integral factor to successful consolidation strategy and labour market reform. This research confirms earlier findings, that ‘ownership’ is much more powerful than ‘compliance’ in promoting EU policies (Zartaloudis 2014). Compliance and conditionality serve to antagonize domestic interests, by directly challenging the status quo and with redistributive implications of reform. Issues of social justice, democracy, and legitimacy have come to the fore during the crisis and question the justification of international intervention. This is reflected best through the level of politicization vis-à-vis the EU as observed in Greece and creates a highly conflictual domestic political climate that is not amenable to reform.

Indeed, it is explicitly highlighted that the avoidance of international intervention was both deliberate and crucial to Italy's reform path. Mario Monti stated he consciously sought to avoid the same fate as Greece, in a direct attempt to limit the extent of politicization (De Geus et al. 2016). By doing so, Monti ensured the reform agenda became domestically-induced, as opposed to being imposed supranationally, which is theoretically understood to have a far highly likelihood of success (Featherstone and Papadimitriou 2008), since this enables states to overcome the conflict of interests that emerge with conditionality agendas (Schimmelfennig and Sedelmeier 2004). To be sure, it was recognized that the EU was exerting significant pressure on Italy for reform, however, from a psychological perspective it was perceived that Italy had full ownership of the reform package (Sacchi 2013; De Geus et al. 2016). Often, the EU lacks a clear blueprint on how to tackle domestic issues, while certainly possessing minimal legitimacy in managing national problems. Featherstone (2014: 16) also notes the problematic conditionality programme in Greece, stressing the conceptual relevance of different policy paradigms as well as the dysfunctional application of the strategy.

Increasing ownership of the reform agenda undoubtedly will lead to higher success. As identified above, this will allow for reforms to be domestically-induced and account for the individual specificities and idiosyncrasies of political economies, one of the core failings of the Greek reforms that have exacerbated socio-economic decline and inequality (Dieter and Frind 2012). By taking ownership of reform, the Italian state were able to create a consensual setting for the social partners to provide concertation and input-legitimacy to policy, but at the same time, were able to act unilaterally if the country needed it. This is furthered by the fact that the government is able to utilize policy for political gain, by responding to societal considerations, such as the way by which PD was able to consolidate a new social base with high skilled middle and upper class workers (Amable and Palombarini 2014; Picot and Tassinari 2017), given that this new social base may favour a redistributing and active welfare state as opposed to high EPL for workers (Hausermann et al. 2015). This provided reforms that appreciated the individual qualities of the Italian political economy and were supported by domestic coalitions.

It was also the case that domestically there was higher levels of support for reform than Greece. It is argued that policy learning has been a key factor for Italy. Policy learning through the earlier years stopped the Italian labour market swaying towards further dualism, as the union veto was relatively effective in resisting outright deregulation of dismissal protection; but, at the same time, it has been argued there has been a culture shift in Italy, and the unions, following accession to the EMU as there has been an acceptance that liberalization could benefit the economy. Mario Monti stated that after the emergency situation had passed, there was an acceptance and recognition in the public that reform was necessary (De Geus et al. 2016).

In fact, the lack of Greek ownership has exacerbated politicization. The redistributive implications of the EU's agenda have become more politicized, particularly as governments have often bypassed traditional democratic means through executive decisions in order to fulfil European commitments (Begg et al. 2015). There is a need for governments to internalize the implications of interdependence when undertaking fiscal and macroeconomic policy decisions, but this needs to be supported through consensual coordination, hopefully ensuring externalities and spillovers are adequately addressed. The fact that the institutional competences for application of reform remain national resulted in a public backlash against intrusive supranational intervention. Crisis-induced reforms have notorious problems with legitimacy as power is centralized and traditional due process is ignored, which is seen as unjustifiable by the public, this problem is substantially exacerbated with the transfer of sovereignty to a supranational level (Boin and Hart 2003).

An oftentimes overlooked factor of crisis management is political willpower. Harry S. Truman said: '[...] in periods where there is no leadership, society stands still. Progress occurs when courageous, skilful leaders seize the opportunity to change things for the better;' while Monti stated that 'we need politicians who are leaders, and not followers; namely who have a vision of what the country needs and wants to become… most politicians in most countries these days do what people want to see, they promise what people want to hear promised to them (De Geus et al. 2016: 183); or equally, Sacchi (2013: 23): 'impetus for completion of the labour reform can only come from the Italian political arena.' This logic reinforced by Boin et al. (2016), whom argue crisis leadership defines crisis management strategy. It is more than the ability to formalize a possible solution, but instead to build transboundary collaboration and with transnational institutions, ensuring both domestic and international coalitions. While there is a substantial "window of opportunity" for a paradigm shift for policy processes and even institutional order, it requires strong leadership to mobilize support and bear the burden of adjustment for necessary tough change

Yet, in spite of supranational oversight, the prominence of clientelism in Greece remains and may underpin a significant reason for why reform has been short-sighted, overly localized, and badly sequenced (Campos and Coricelli 2015).). Evidence from Greek labour market reform indicates that such preferences have been responded to, for instance: public sector wage premiums actually increased during the crisis (Christopoulou and Monastiriotis 2015: 7); similarly, public utilities were the only sector whereby wages remained above their 2000 levels, which correlates to a sector protected by one of the most powerful unions in Greece; while finally, as a percentage of total employment public sector employment has grown 2009-2013 (ILOSTAT) as the greatest proportion of job losses came in the private sector or due to a collapse of new hires (Daouli et al. 2014). This reflects the strategic choice of government to 'preserve and protect an oversized public sector at any cost' (Giannitis and Zografakis 2015: 17), which supports the literature on fiscal consolidation and clientelism (Afonso et al. 2015; Hübscher 2016; Trantidis 2015).

In such clientelist systems, a governments autonomy to forge alliances and support for policy is severely undermined, 'it must adjust its policies to safeguard their privileges or risk undermining its cohesion and mobilization capacity and triggering defections that could strengthen its political rivals' (Ibid: 28). This introduces what has been labelled a "clientelist bias" to economic policy-making, which is presumed to be resilient against both pressing economic conditions and mounting international commitments, while it should also diffuse the cost of adjustment across the general population given the highly fragmented and particularistic nature of concessions in a manner that represents a captured democracy (Kollintzas et al. 2011). There is an important lesson from such a model about structural reforms, which in spite of appearing similar on paper, take radically different forms and have vastly different effects depending on political context.

In addition to this was the more extreme politicization that faced the Greek state. As indicated by the logistic regression, Greece faced deeper and more pronounced loss of trust in both the EU and domestic institutions. The reasons for this has been explored extensively. The impact on decision-making was equally pronounced, as the electoral cost of adhering to supranational initiatives grows substantially. However, a striking finding is that it is not necessarily austerity per se that the people “blame” governments for. The traditional lack of trust was compounded by blame for the financial crisis both in terms of profligacy and for failing to modernize their economies (Berikou 2007; Malliaropulos 2010). More intriguing is that the public clearly blame the state for a failure to provide an alternative. ‘It appears that the Greeks not only punished the government for poor economic performance, but also for allowing those international interventions’ (Kosmidis 2013: 34). It is possible that had intervention been successful then governments may not have been punished (Anderson, 2006; Lobo and Lewis-Beck, 2012; Hobolt, Tilley and Wittrock, N.d.). This reinforces the earlier analysis of reform ownership and has been supported by the interviews in this research. It reflects the power of politicization during the crisis and how it has played a defining role in political developments.

This highlights a core problem, in that a lack of trust delegitimizes the capabilities of institutions and undermines their ability to implement reform. Trust is perhaps the most integral characteristic of any political system, and highlights as to why the logistic regression in this work displays such important results. Lower political trust undermines administrative capacity and widen problem intractability that creates a cycle of non-cooperation and deepens recession (Exadaktylos and Zahariadis 2013; Mazmanian and Sabatier 1980). This becomes even more relevant during a crisis, as society and policy-making becomes a zero-sum game between competing groups (Rothstein and Uslaner 2005). In Covey’s (2006) seminal work, *The Speed of Trust*, he argues that politics moves at the speed of trust. The critical point is that trust underpins every commonality in society, and that if removed ‘will destroy the most powerful government.’ This situation is exacerbated in Greece and Italy, traditionally low-trust nations, whereby it has been demonstrated during times of hardship, citizens in low-trust nations are likely to attribute blame to politicians and result in high political turnover (Nunn et al. 2016).

The issue of trust cannot be overstated, and how the EU is trapped in a political controversy. Politicization has become the defining feature of the political crisis and lead to nationalist identity mobilization (Hooghe and Marks 2008), while there have been irreconcilable conflicts between capitalism and national social democracy (Streeck 2011), which combined have intensified scrutiny on the democratic deficit of EMU. The crisis has generated an unresolvable scenario, as outlined by Claus Offe (2012): 'What needs to be done is extremely unpopular and therefore cannot be implemented in democratic ways. But neither can post-democratic – technocratic modes find a solution.' These problems are rooted in the incomplete architecture of EMU and challenge the longevity of European integration.

There have been two core problems that have been a catalyst for politicization, as identified by this research and the wider literature: firstly, the importance of authority transfers to a supranational level (Grande and Hutter 2016); secondly, the recognition of European policy as a dependent variable for individual socio-economic outcomes (Armingeon et al. 2016). It is apparent that the Euro crisis is a problem of a trust deficit: Eichengreen (2013) supports this in arguing that despite the emphasis on all deficiencies of EMU, the only one that truly matters is a lack of trust. For this paper, the lack of social trust has been a critical component in blocking reform, primarily the lack of vertical trust between citizens and policy-makers that makes the public unwilling to accept "risk" or "sacrifice" for reform (Warren 1999: 311). Political trust is the most essential characteristic of successful reform implementation (Exadaktylos and Zahariadis 2012).

Deficient trust in institutions threatens their legitimacy and any source that supported the bailout has suffered a dramatic loss of political legitimacy (Flassbeck and Lapavitsas 2015: 74). There is a strong and negative association between unemployment and trust in EMU, demonstrating why labour market flexibility remains a controversial policy. The problem is, however, is that there is an irreconcilable conflict between capitalism and national social democracy (Streeck 2011); whereby ‘what needs to be done is extremely unpopular and therefore cannot be implemented in democratic ways. But neither can post-democratic – technocratic modes find a solution’ (Offe 2012).

Politicization has also been generated through limited output legitimacy compounded by inherent compatibility issues with the adopted reform agenda, in part due to a lack of input-legitimacy (e.g. Wyplosz 2011; Polychroniou 2013; Storm and Naastepad 2015). Austerity has been masqueraded as the remedy to a public debt crisis, but instead has merely acted as an attack on wages, social services and public ownership (Busch et al. 2013). This is exactly why it has been stated there is a “war” against Greece, whereby it is not a negotiation whether Greece should enact austerity or reform but a mandatory requirement (Kouvelakis 2015). These developments highlight both a responsibility gap across supranational institutions (Salomon 2015) and are reflective of the process of liberalization failing (Fana et al. 2015). These issues of social justice came to the fore in a recent ECJ ruling that stated crisis-hit citizens may have the opportunity to sue the Troika, truly representing the failings of this system (EURACTIV 2016). Thus, both the credibility and legitimacy of such action by an unelected and unaccountable supranational power is severely undermined as the remedy of internal devaluation is both ‘ineffective and counterproductive’ (Armingeon and Baccaro 2012).

This draws back to the importance of state autonomy in crisis management. The redistributive implications of the EU's agenda have become more politicized, particularly as governments have often bypassed traditional democratic means through executive decisions in order to fulfil European commitments (Begg et al. 2015). There is a need for governments to internalize the implications of interdependence when undertaking fiscal and macroeconomic policy decisions, but this needs to be supported through consensual coordination, hopefully ensuring externalities and spillovers are adequately addressed. The fact that the institutional competences for application of reform remain national resulted in a public backlash against intrusive supranational intervention. Crisis-induced reforms have notorious problems with legitimacy as power is centralized and traditional due process is ignored, which is seen as unjustifiable by the public, this problem is substantially exacerbated with the transfer of sovereignty to a supranational level (Boin and Hart 2003).

This point is crucial, and reiterates the research of Colombo and Regalia (2016). It is argued that the impact of the crisis on employment relations does not fit: the social partners' organizational strength has been maintained and they continued to play a crucial role in labour market reform; however, the dramatic change in process that has influenced this reconstruction of the industrial system has been the autonomous role played by the state, which has the potential to implement a deep transformation of the labour relations system. This contrasts with traditional theorization of the declining role of the state in a globalized system; but, reinforced by crisis-induced emergencies and external pressure, the Italian state has continuously intervened through comprehensive reforms, or through the enactment of measures targeted to influence indirectly the industrial relations actors' behaviour (Ibid: 307). This has not diminished the role of the social partners, on the contrary it may be seen as a means of relaunching collective bargaining on new foundations and promoting the responsibility of the social partners, instead it is a means of reshaping industrial relations around a new paradigm that is more structured.

Without this capability, the Greek public face a dilemma, insomuch that in spite of severe resistance to austerity, the majority of the public recognize the benefits of staying in the Euro. The recent Greek referendum demonstrates this clear case, whereby in spite of ignoring the referendum result, SYRIZA accepted the Troika's austerity package and was not held accountable. SYRIZA have shifted rhetoric away from resistance to recognizing the need for more effective implementation that eases the burden on the less well-off. Based on this, SYRIZA was able to retain its position of power by forming a coalition with sovereigntist right-win ANEL, with the premise to undertake a compulsory but temporary compromise, before finally overcoming conservativism and austerity policies of the EU (Chatzistavrou and Michalaki 2015). In essence, it is another form of TINA (There Is No Alternative) that dominated political rhetoric at the very start of the crisis. Research by Fernández-Albertos and Kuo (2016: 900) demonstrates this exact paradox, whereby many people whom oppose fiscal constraints imposed by austerity are actually supportive of the euro, as such it is difficult to articulate a political opposition to the policy status quo, ensuring the only viable course of action is to accept the demands of the EU.

For sure, the basic principles of EU membership in democracy, the welfare state, and free movement of people have been challenged during the crisis, as it has become increasingly apparent that the premise of cohesive goal of prosperity is a falsehood (Panagiotarea 2015). Yet, ultimately, the fact is the Greek public still fully understand the importance of staying in the EU, and expect that the EU can still provide a key security and insurance framework in light of increasing migration issues; while, in the longer term, that it can return to economic prosperity within the EMU framework.

The issue is, there needs to be a change of paradigm. The approach adopted has been self-defeating, as increasing flexibility has removed the incentive to increase efficiency or innovate. The reforms has resulted in vastly increased precariousness in society, that has exposed the flaws in each states welfare system. Further undermining that case, is the fact the familial welfare system by which Greece and Italy rely on has also been weakened, but not substituted (Berton et al. 2012). Flexibility also may create more problems in the long-run, which are structural and even more difficult to deal with. The adverse effects also extend beyond the most apparent issues of poverty, inequality, low wages, and unemployment; to a depreciation of human capital, whereby structural employment becomes embedded and brain drain complicates the road to recovery (Svarer and Andersen 2012). Ultimately, the current state of the labour market is unsustainable, and the process of flexibilization has not generated the expected revival of competitiveness and instead is contributing to further declining socio-economic fundamentals and even greater challenges for firms and workers.

It appears domestic political factors restrict all avenues of feasible change within this bargaining game (Iversen and Soskice 2013). Extensive reforms are blocked by domestic insiders, which presents a better deal for the Northern EU nations, while any North-South financial transfer would be a better deal for the Southern states, yet is prevented by German voters. This situation results in perpetual austerity, but also reflects the fact that the Euro can be maintained without any major reform efforts, which further undermines the impetus for structural reform. Although continual “mini-crises” emerge, politicians are able to navigate these issues without solving the structural problems that exist. This situation is known as the war of attrition and can be sustained for a very long time (Ibid). The EMU is not sustainable without both a national adjustment capacity and willingness to implement reform that can overcome these powerful domestic considerations (Bongart and Torres 2016). Such reforms are a pre-condition to sustainable growth and exiting the crisis, and Greece remains a laggard in that regard in spite of making significant progress. Ultimately, domestic political preferences have become a core input into the European integration process as a new wave of public distrust in political bodies has increased the awareness and criticism of political system as a whole rather than just the outputs (Bickerton 2015).

Consequently, ‘the irresistible force of the European core has met the immovable object of the European periphery’ (Currie and Teague 2017). A worrying polarization has occurred as there has been a reconstruction of European governance as debtor states have received as battery of recessive economic and social demands in an undemocratic fashion. The debtor nations have been obliged to implement a deregulation of labour markets, but these do not appear to have destabilised the integrity of industrial relations systems. The interesting aspect of the crisis period for these states is that although the reforms are corroding employment protection and social solidarity, it seems unlikely that dismantling the very heart of established industrial relations systems (Ibid).

The learning from the research is that integration theory needs to incorporate “the domestic.” It can be argued that integration may be depicted as a “meta-project” that consists of “sub-projects” firmly rooted in the domestic level. Thus, when the domestic level changes, this cascades through the system and has the possibility to impact the integration project (Bulmer and Joseph 2016: 744). The EU’s competing hegemonic projects generates questions of political and economic power struggles at the heart of integration, as this generates changing institutional order and policy paradigms.

When drawing back to the issue of postfunctionalism, it is clear that both cases represent qualities that are consistent with the predictions of the theorization. It has been demonstrated that the sources of domestic change are endogenous, however, unlike postfunctionalism this paper suggest that domestic interests – particularly capital interests – have been paramount. The theory cannot account for the institutional trasnformations made during the crisis, which is strongly founded on these aforementioned influences. Exogenous shocks and populist reactions capitalize on the capacity problems of both the EU and states, but limit the potential for common and effective policies (Schimmelfennig 2017).

In part was the support of domestic and transnational capital interests, but equally the response of the elites to mass public opinion as a constraining factor. Depoliticization has been widely utilized through a delegation of power to non-majoritarian supranational institutions, that while this empowered Eurospectic parties, enabled states to implement necessary reform and adopt further integration *against* societal pressure. This work has emphasized solely the domestic developments, yet it is important to recognize that a significant deepening of European integration has occurred, without altering European Treaties, such as: The Fiscal Compact, the European Stability Mechanism, the Banking Union, the Macro-Economic Imbalance Mechanism and the European Semester. This both cannot be entirely explained by postfunctionalism, but also validates the understanding that states have actively utilized this process as a powerful means of depoliticization. By transferring regulatory authority to an EU level, this has aided in compliance with stricter austerity rules and structural reforms as enforced from a supranational level, allowing debtor states to become self-sufficient. Financial assistance provides temporary relief to build reform capacity, thus a delegation of power to a supranational level empowered by the Commission and ECB allows decisions to be undertaken with redistributive consequences whilst being shielded from political and electoral accountability (Chang 2016; Chalmers et al. 2016; Schimmelfennig 2014; Borzel and Risse 2016).

At the same time, the work conforms to further research that outlines the understanding of differentiated politicization across times, countries, and settings (de Wilde et al. 2015; Grande and Kriesei 2016). The multi-level logistic regression indicates this empirically, as in spite of similar circumstances and capitalist structure, politicization in Italy and Greece has varied considerably; whilst, each country has also varied across time. This also aids in explaining the subsequent domestic developments, since aforementioned, Italy was able to effectively shelter domestic policy-making from the worst of politicization. Further, utilitarian considerations have come to the fore, as now citizens have formalized opinions on a cost-benefit analysis of European economic governance, also identified in the logistic regression. Tied to this, however, is the recognition of the benefits of staying in the Euro, which has been a contributing factor in appeasing public resistance. What this implies is that although elites may not be able to ignore public opinion, greater public contestation does not necessarily equal a veto; instead, public opinion is highly dynamic and responsive to the changing setting (Hobolt and Wratil 2015: 253).

Consequently, the research provides a keen insight into the processes of crisis management in Greece and Italy, which conforms to the wider literature in suggesting that domestic politics still matters (Picot and Tassanari 2017). In spite of homogenous pressure for reform, the path of liberalization in Greece and Italy has demonstrated divergences. While there are consistencies with the predictions of postfunctionalism, it is the case that policy outcomes are highly complex and subject to power contestation around political and economic ideas and cannot be simplified into mere single theorizations. It is argued that policy-processes are centralized upon two highly-related aspects: Firstly, domestic politics still matters. This is reflected in the varying political strategies, compromises, and calculations, whereby interests are formalized and legitimized. Secondly, policy is driven by elites, which accounts for the different political and institutional interests of such groups. In addition, the "European elite" is disembedded, which demonstrates the significance of the domestic (Bulmer and Joseph 2016: 737). Whilst, on the other hand, there has been a distinctive modification in political processes that correspond to political and economic changes throughout the crisis period. On the one hand, there has been a shift from government to governance, with a devolution of state powers downwards, but a internationalization of policy upwards. Whilst, on the other hand, there has been an increase in interdependence and intensification of financialization and economic flows that has ensured a drive towards market regulation and liberalization based on a rule-based ordo-liberal approach. The dilemma that emerges is that the former qualities have stressed the rising influence of the domestic; but the latter has seen a distinctive shift in power and responsibility to the supranational, as a means of mitigating this vis-à-vis depoliticization.

5.7 Conclusion

In conclusion, this work sought to evaluate the role of domestic political factors in crisis management strategy. The work applied an adapted theoretical framework of Schirm (2015), which identifies key societal considerations and outlines processes for their impact in policy-making processes. The basic facet of the theory considers that democratically elected and accountable governments should be responsive to powerful societal considerations. The research took a postfunctionalist position, by considering the role of politicization as a critical determinant in policy-outcomes.

For the methodology, the work makes a key contribution by generating a multi-level binary logistic regression, with the aim of understanding the evolution of politicization across time, area, and space. On the other hand, the work utilizes the preference-attainment approach to better understand the role of domestic interests. This is conducted by assessing the explicit statements and positions of both unions and employers, corroborating this against direct action undertaken and supporting with qualitative interview data. Finally, to provide a thorough comparative analysis, both a detailed analysis of the industrial relations and an assessment of the course of reform is undertaken, utilizing Varieties of Liberalization literature to conceptualize the changes.

The core finding of this paper is that domestic politics still matters. It may be seen that the resultant path of reform has been a result of a power struggle between competing socio-economic interests at both the domestic and transnational level, a process often concealed by the predominant neofunctionalist argument of an automatic relationship between EMU membership and increasing labour market flexibility (Talani 2017: 212). The research demonstrates that despite exogenous pressure favouring liberalization, reform trajectories have diverged as liberalization has taken different forms, which may be accounted for by understanding domestic political influences.

This divergence is founded both on the relative influence of domestic considerations in each state, as well as the power of the state that may act as a mediator for these internal pressures. The work identified a number of key trends that contributed to this case: namely, state autonomy; the level of politicization; political willpower; political trust; and power of the social partners.

What became particularly clear, is that labour market flexibility has been applied against the vehement opposition of both the public and unions. The heart of the explanation rests on the coercion of the EU and international financial markets, a process both supported by and empowering employers' associations. It has been demonstrated that both necessity and an understanding of the requirement to change did ease the process, particularly in the early stages. The result has been an empowerment of business interests vis-à-vis organized labour as there has been a dismantling of collective bargaining and erosion of industrial relation systems that rebalanced bargaining power between employers and employees.

However, while both states have made significant strides, there has been a major divergence in reform, as well as lacklustre progress in a variety of areas, that indicates the prominence of domestic political factors. Italy undertook a process of embedded flexibilization, which has been argued to indicate the continued role of domestic political influences linked to the power of centre-left parties (Picot and Tassanari 2017). In addition, the collective bargaining framework has largely been maintained, as both the unions and employers have sought cooperation to provide solutions to the crisis, whilst the social partners are adapting to a new structured role in the industrial relations system.

Greece, however, has been plagued by lacklustre implementation and limited progress with long-term structural reform. This has been attributed largely to the extensive politicization of the labour market, but equally clientelist relations may have been pivotal. Often, it is argued, that Greece failed to achieve a paradigm shift with reform, instead opting for policy experimentation in order to avoid tough decisions and conflict with organized interests (Ladi 2014: 203) There has been a distinct lack of long-term structural reform to accommodate advances in labour market flexibility, which in itself has been disjointed, lacking vision, and targeted.

Thus, while differences in reform trajectory may be attributed to domestic political resistance; the reverse is true insomuch that similarities in structural reform, in particular the deregulation of coordination, can be ascribed to the pressure of the financial markets and EU (Sacchi 2015). This has been the defining process of European Crisis Management, as there has been a direct shift in responsibility and power upwards, ensuring supranational regulatory oversight to increase compliance and ease the path of structural reform. It is even the case that states have actively sought external pressure to overcome the implications of politicization (Urie 2015). This provides a solid understanding as to why states have been able to overcome domestic resistance, as well as providing a clear correlation to the growth of employers' autonomy.

Even still, although the crisis has created a centralized European governance structure, its ultimate dependence is on the implementation of states (Bulmer and Joseph 2016), and thus depends on the relative embeddedness of the neoliberal project in national institutions (Apeldoorn 2009: 22). This is exactly why domestic politics still matters, emphasising why Greece continues to trail and why the two cases have diverged. Undermining this capability, however, is that the dominance process of intergovernmentalism utilized in the crisis has been a defining feature of politicization, which has become a core characteristic of policy-making and thus may mean that the approach is self-defeating.

The fact is, the European crisis management process has widened existing cleavages and undermines its own intent, by fuelling politicization. It has been shown that the increasing level of intrusiveness is highly related to the likelihood of failure (Theodoropoulou 2015). The more difficult politically or strategically; the higher the adjustment; and the more direct relevance a policy has for adjustment, so the higher the intrusiveness becomes. However, aforementioned, this process, in conjunction with repeated policy failures, intensifies opposition to intrusion and reduces the likelihood of implementation. Instead, the EU's political will has remained strong in enforcing their one-size-fits-all policy (Pisani-Ferry et al. 2013) by means of increasing intrusiveness, yet they have failed to reconsider the strategy itself (Ladi and Graziano 2014).

Given this understanding, there are issues of both coordinating this project across states, as well as reconciling the different political forms that it may take. Different projects are sure to create different forms, as they are subject to individualized economic and political pressures and priorities. This dependence on fundamental social relations and interests is evident in this research. This point formalizes the heart of domestic political approaches and the framework of this research, insomuch that it is suggested that policy-makers should be responsive to the most powerful societal considerations in decision-making.

It becomes clear that state autonomy in crisis management has played a profound role in the course of reform. Maintaining sovereignty ensures ownership of the reform process that should result in a more consensual policy process with coalitions of support for domestically-induced policy (Bongardt and Torres 2016), but also providing the necessary input-legitimacy from social concertation to adapt reform to the idiosyncrasies of the state's unique capitalist structure. In doing so, the worst effects of politicization are avoided and ease any pain of reform for the government. The Italian state's new role in industrial relations has become a defining feature of the reform trajectory, as they have managed sectoral interests and sustained the capability to act unilaterally alongside creating a convincing narrative – as such, overcoming path-dependence.

Interrelated to this is that political leadership has been critical. It has been extensively documented that successful crisis management is founded on strong political willpower, given that the political ramifications of implementing such extreme measures. Italy has been fortunate to have had a relatively successful technocratic intervention and subsequent strong leadership structure that has undertaken extensive but balanced reforms. Greece, however, has resisted the Troika's attempts to deregulate the market but not offered any semblance of an alternative. SYRIZA did represent a change in that perspective, but even still lacked the capacity to formalize a convincing change of direction. According to Hall (1993) conceptualization, whilst endogenous and exogenous forces are important in a critical juncture to initiate a paradigm shift, ultimately the key requirement is a coherent, strong domestic political authority – something Greece lacked, but Italy possessed.

Finally, political trust is a crucial component of successful reform strategy. The crisis and political management that has been utilized has generated significant politicization vis-à-vis the EU and deteriorated trust to unprecedented levels, a fact supported by the quantitative evidence in this research. A populist movement has spread across Europe as a dangerous precedent of nationalism has been set and the public have little choice but to turn to more extreme political choices. The work has demonstrated how important politicization has become as a determinant of successful reform strategies, adhering to the new perception in the literature that also recognizes the feature and argues that differences in reform outcomes in the crisis can be explained by domestic mass politicization (Schimmelfennig 2017: 6).

It is argued that the above features possess means of mediating domestic political factors and can explain the heart of the divergence in reform trajectory observed between the two cases. Italy retained autonomy in crisis management that enabled the state to overcome a significant degree of politicization, whilst also enabling the state to sustain collective bargaining structures to appease the social partners. The ownership of reform is clear, as the process of embedded flexibilization displays the clear influence of domestic political forces but also an adaptation to the unique qualities of the labour market. Greece, however, was forced to adhere to a strict neoliberal agenda of deregulation; but this process fed into significant societal resistance that raised the stakes of implementation and hindered reform. At the same time, clientelist structures remained as reflected by numerous anecdotal instances of reform being shifted to “outsiders” of the system exacerbating an already two-speed labour market (Lyberki et al. 2016).

This research adopted a postfunctionalist perspective in evaluating the crisis management strategies of Greece and Italy. It has been demonstrated that politicization has become a pivotal characteristic of government preference formation, possessing a clear ability to impact policy outcomes, a prediction that supports the core argument of this paper. It has been empirically demonstrated that public opinion plays a defining role in shaping policy responses to the crisis (Copelovitch et al. 2016: 832; Kuhn 2017). On the other hand, in line with the critique of Schimmelfennig, exogenous pressure has been paramount to reform trajectory. Particularly in the early stages of the crisis, both states were able to utilize supranational influence and shelter decision-making, subsequently enacting a harsh agenda of reform. The key point of note is that this process was only truly effective in the early stages of the crisis. As hypothesized, a failing of international intervention and continual socio-economic decline actually contributed to growing domestic political pressure and began to challenge this process. During this period not only has politicization developed, but to a certain degree the unions have been empowered, as they themselves have adapted to the new challenges of the redefined EMU governance system. The divergence in Italy, as noted, may come due to the variety of factors that ensured the state was better able to mediate these domestic influences.

What becomes clear is that institutional transformation is heavily dependent on power, especially state power (Regini 2014; Rutherford and Frangi 2016). This illustrates that in spite of growing exogenous forces, and dwindling endogenous pressure, ultimately it is the autonomy of the state that will decide the course and success of liberalization. The Italian state has dramatically increased its role in industrial relations, demonstrating capabilities to act unilaterally and generate a convincing narrative, demonstrating that the state is now relatively impermeable to union pressure. Yet, the Greek state forfeited both sovereignty and ownership of the agenda, instead turning to blame avoidance tactics in the face of societal pressure and concentrating on areas that were easier to adjust but also meet the necessary pressure of the financial markets and Troika, given the continued domination of insider institutions and structures that are immune to party rules (Ioannides 2013; Tsekeris 2015).

Mixed-market economies have struggled to adapt to the neoliberal pressures of liberalization throughout the crisis. Given the inherent clientelist structure of such states, the burden of adjustment has been shifted largely to "outsiders" of the system, as the state plays a facilitating role through compensation and the crisis has challenged this role. The existence of these client-patron systems detracts from the autonomy or willingness of the state to implement reform. There is clear evidence of new divides emerging within both nations, yet more so in the case of Greece where there are demonstrable "winners" (Giannitsis and Zografakis 2015: 134). The Greek state not only has had its power restricted by external constraints, but also had to contend with a volatile and active electorate as well as internal administrative deficiencies, all of which contributed to an overly weak core executive. Hassel (2014: 33) argues that given such circumstances, coordination should be a preferred to liberalization, yet liberalization is chosen to disrupt these clientelist structures. In light of the understanding of the dominance approach, it is also possible that coordination could overcome the negative perception of illegitimacy and restore trust by ensuring a degree of consensual-policy making. Nevertheless, the circumstances, ineffective domestic governance, and European approach to decision-making has reinforced powerful domestic considerations that oppose such measures and generated radical movements in opposition, as such further complicating decision-making.

This shift in power and adoption of liberalization has had a definitive effect of politicizing the EU and has fed back into a severe crisis of legitimacy and democracy. Both domestic and EU trust has fallen dramatically, with labour market reform being the most contentious issue for the public. There is a clear suggestion that in spite of severe exogenous pressure, the reform process has been hindered (Picot and Tassinari 2014; 2017). This is particularly concerning given that the future of the Eurozone strongly rests on the possibility of future political integration (Campos et al. 2015). Indeed, the institutional developments within the EU also support this premise, with the European Parliament calling for more control over policies conducted by the executive – apparently clashing with the logic of depoliticization (Dehousse 2016). As has been witnessed, demographically and nationally differentiated states are unlikely to willingly accept such imposed initiatives, while governments will never delegate core governance functions of essential state capabilities to a supranational body, demonstrating the ineffectiveness of the current European architecture at handling such a situation (Fabbrini 2016).

Moving forward there are certainly questions over the viability of the continued path of reform. It is clear that the capitalist class dramatically over-estimated the impact of overcoming organized labour would have upon competitiveness, indicating the severe weakness in addressing the crisis solely with supply-side measures. Research stresses that too much emphasis has been placed upon flexibility, and that flexibility in the medium and long-term may lead to a deteriorating economic capacity and reduced capacity to innovate (Tsipouri et al. 2007); while if there are not social trade-offs in place, and if it triggers social resistance, then it is highly likely to be counterproductive. For this reason, it has been argued that without accommodating policies to improve efficiency and innovation, these states are merely implementing a policy of ‘underdevelopment’ (Talani 2017: 212).

It is imperative that understandings of crisis management strategy consider domestic political explanations. Traditional theories of European integration and crisis management pay little attention to domestic politics, and in particular to public opinion. The crisis, however, has presented the greatest challenge to the existence of the European Union to date. The major contribution of this work was through identifying the domestic political challenges to policy-making through the financial crisis, particularly investigating the role of public opinion and key societal actors and highlighting the sustained and enhanced role they continue to play. According to dominant theories, European policy is of little interest to ordinary citizens, however the crisis has revealed the harsh reality of monetary integration and the consequences of supranational intervention thus increasing the salience of Europe in domestic politics.

It is true, the early stages of the crisis followed neo-functionalist logic whereby elites were able to shelter the policy-making process at a European level – notably through technocratic intervention – leading integration through path-dependency and endogenous preference-formation. However, the limited success of such processes has further revealed fractures in support for the EU and substantially increased the challenges facing national governments as domestic politics has become inextricably linked with European outcomes (Hooghe and Marks 2008: 22). A worrying situation has occurred, as best captured by Kennedy (2016: 268): 'The de-democratization of national economic policymaking in the interests of preserving the neoliberal character of the EU has thus set in train a dangerous dynamic: pro-European, anti-austerity forces are being bulldozed by the institutions and policies of the Troika in the interests of preserving neoliberalism, while fanning the flames of the Eurosceptic far-Right, which seeks to destroy the European project.'

The findings, therefore, have importance with respect to the European crisis management strategy. The research highlights the problems of manging implementation of reforms on a domestic level and stresses the deficiencies in 'compliance' and how 'ownership' may be far superior. Compliance will inevitably generate societal resistance, become a catalyst for mobilization and radical movements, and exacerbate tension and politicization. These features will inevitably raise the cost of implementation and diminish the capabilities or willingness of the state to adhere to reform agendas. These features are compounded by the continued ineffectiveness of intervention and imposed reform. Ownership, however, could mitigate politicization, and appease societal interests by engaging the social partners in policy-processes; hopefully, creating effective policy with input-legitimacy with an evidence-based approach that is adapted to the institutional configuration and idiosyncracies of that states capitalist structure (Bozani and Drydakis 2015).

Therefore, what becomes clear is that the crisis has exposed flaws of EMU governance that were partially remedied (Begg et al. 2015). The fact that domestic politics still matter, even in light of conditionality, justifies a more coherent and strengthened system of economic coordination within Europe that provides national ownership for a sustainable structural reform agenda. This should lead to sustainable integration as states are able to internalize and better manage the implications of redistribution attached to challenges of adjustment. The current processes have had severe implications for the intensification of domestic challenges, notably in politicization, that draws into question the longevity of the Eurozone. A process of long-term goals and short-term action must complement and be aligned with the wishes of EU citizens in the crisis countries that will benefit the stability and sustainability of not only the reform packages but also wider political systems and EU as a whole (Ibid).

These findings hold great weight for the potential future of the Eurozone and a better understanding of policy decisions in the financial crisis. If the EU cannot elicit substantive reform during this period where nations should be more receptive to change, then there may be serious ramifications for the capability of the EU to coordinate macroeconomic performance across the heterogeneous union (Featherstone 2014). The last fifty years clearly reflect that with mass democracy, elite-led integration has limits and the recent crisis appears to have constrained the potential even further (Majone 2009: 233-4). Yet the leadership deficit extends beyond the supranational level and appears to be an EU wide problem. Domestically, the Greek government has lacked the capacity or willingness to overcome the insider-outsider system that exists and undertake necessary structural reform. While at an EU-level it is clear the process of depoliticization has failed and the lack of understanding on the impact of structural reforms is evident (Hsieh 2015). It is difficult to justify the intrusiveness of the EU in national social and labour market policy as a “necessary evil,” given the outcomes; the situation emerging as a result of these processes certainly has presented a significant challenge to the sustainability of the EMU itself. In essence, the core finding of the crisis is that democratic and accountability principles must be taken seriously in a bid to overcome the leadership deficit and to settle the rising societal resistance. Only in doing so may the political system restore trust and perhaps the governments and public be willing to agree and implement a necessary structural reform agenda that could pave way for crisis relief and enable essential political integration.

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List of interviewees:

Dr Theochari – EKA. Date: 17/01/2016

Mr Massourakis – SEV . Date: 22/01/2016

Mr. Argedis – GSEE Date: 24/01/2016

Mr Bimpas – GSEVEE Date: 22/01/2016

Mr Trigazis – SYRIZA Date: 18/01/2016

Ms Frangakis - Member of the Trasnational Institute Date: 23/01/2016

Poulantzas Institution Date: 19/01/2016